

09

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Kesko in brief

Kesko is the leading provider of trading sector services and a highly valued listed company. Through its stores, Kesko offers quality to the daily lives of consumers. Kesko has about 2,000 stores engaged in chain operations in the Nordic and Baltic countries, Russia, and Belarus.

Our core competence areas

- Development and management of store concepts and brands
- Development, ownership and management of the store site network
- International retail expertise
- Combining retailer entrepreneurship and chain operations efficiently
- Leveraging centralised resources and economies of scale

Divisions

KESKO FOOD | PAGE 14

Kesko Food is a strong operator in the Finnish grocery trade. K-retailers, whose operations are based on the K-retailer business model, are responsible for customer satisfaction at the more than 1,000 K-food stores.

Kesko Food manages K-citymarket's food trade and the K-supermarket, K-market and K-extra chains. Kesko Food's main functions include the centralised purchasing of products, selection management, logistics, and the development of chain concepts and the store site network. Chain operations ensure the efficiency and competitiveness of business.

Kesko Food's subsidiary Kespro Ltd is the leading wholesaler in the Finnish HoReCa business. It offers the best sourcing solutions in the sector for its customers.

HOME AND SPECIALITY GOODS TRADE | PAGE 20

Kesko's home and speciality goods trade operates in the clothing, home, leisure, home technology, entertainment and furniture product lines. The home and speciality goods trade comprises Anttila Oy, K-citymarket Oy, Intersport Finland Ltd, Indoor Group Ltd, Musta Pörssi Ltd and Kenkäkesko Ltd. The total number of home and speciality goods stores is 450.

BUILDING AND HOME IMPROVEMENT TRADE | PAGE 26

Rautakesko operates in the building and home improvement supplies trade in Finland, Sweden, Norway, the Baltic countries, Russia, and Belarus and the agricultural supplies trade in Finland. Rautakesko manages and develops its K-rauta, Rautia, K-maatalous, Bygghälsan, Senukai and OMA retail chains and B2B sales in its operating area. Rautakesko is responsible for the chains' concepts, marketing, sourcing and logistics services, store network, and retailer resources. There are 330 building and home improvement stores in eight countries and 90 agricultural stores in Finland.

CAR AND MACHINERY TRADE | PAGE 34

VW-Auto and Konekesko make up the car and machinery trade division.

VW-Auto imports and markets Volkswagen, Audi and Seat passenger cars, and Volkswagen commercial vehicles in Finland, and it also imports and markets Seat passenger cars in Estonia and Latvia. VW-Auto is also engaged in car retailing and provides after-sales services at its own outlets in the Greater Helsinki area and Turku.

Konekesko is a service company specialising in the import and sales of construction, environmental and agricultural machinery, trucks and buses, and recreational machinery. Konekesko operates in Finland, the Baltic countries and Russia. Konekesko arranges the manufacture of and sells Yamarin boats in Finland and exports them to several European countries and Russia.



Vision

Kesko is the leading provider of trading sector services and a highly valued listed company.

Values

THE VALUES GUIDE OUR OPERATIONS:

We exceed our customers' expectations

We recognise our customers' needs and expectations. We strive to offer them positive experiences through the continual reform of our operations and emphasis on entrepreneurial activity.

We are the best operator in the trading sector

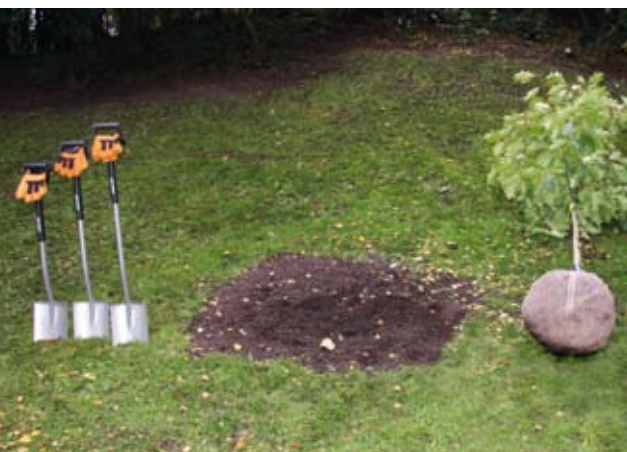
We offer our customers the best products and services in the market to ensure our competitiveness and success.

We create a good working community

We operate in an open, interactive working community where people are respected and every individual can contribute to the full and use his or her initiative.

We bear our corporate responsibility

Our operations are responsible and we follow ethically acceptable principles in all actions within our working community and in relations with our partners.



Review by the President and CEO

A year for adjustment

In all of Kesko's business divisions and operating countries, the recession had a major impact on the operating environment of the trading sector and on the willingness of customers to consume.

In 2009, we cut costs and adapted our business according to the prevailing market situation. We also had to decrease the number of employees, particularly in the building and home improvement and in the car and machinery trade.

POSITIVE PERFORMANCE IN ALL DIVISIONS

The grocery sales of K-food stores increased by 5.6% and clearly exceeded market growth. The popularity of Pirkka products continued. The full reduction in the value added tax on retail sales of food, which took effect in autumn 2009, was implemented in the prices of K-food stores. Kesko Food's return on capital was the best of all times.

In the home and speciality goods trade, sales development during the latter part of the year clearly improved from the previous year. The sales and profitability of K-citymarket and Intersport improved throughout the year. Anttila, too, had brisk Christmas sales that exceeded expectations.

The halt in construction caused by the recession made 2009 a difficult year for the building and home improvement trade in all the operating countries and particularly in business-to-business trade. The building and home improvement segment managed to reduce costs and stocks and keep trade receivables

under control. This contributed to a clear profit despite the recession.

In the car and machinery trade, sales and profits decreased as demand declined. The market share of Audi, Volkswagen and Seat, the brands imported by VV-Auto, increased during the year and the number of new orders grew clearly towards the end of the year.

AIMING AT PROFITABLE GROWTH

Kesko's solvency, cash flow and liquidity are at an excellent level. A strong balance sheet and good financial standing provide Kesko with opportunities for making investments during recession, too.

When making investment decisions, we take the market situation and customer demand of the particular country into consideration. We will continue to actively develop the store network.

We will continue to investigate opportunities for expanding the food trade into international markets, particularly in Russia.

K-PLUSA PROVIDES CUSTOMERS WITH DIVERSIFIED BENEFITS

The K-Plussa customer loyalty programme provides total services for every K-retailer, store and chain of the K-Group to better cater for their customers and increase customer satisfaction.

More than 3.6 million Finns now have a K-Plussa customer loyalty card. The K-Plussa customer loyalty programme achieved the landmark of two million households in 2009 after more than 100,000 new households had joined. The K-Plussa network comprises over 3,500 outlets throughout Finland.



By concentrating their purchases, K-Plussa customers get diversified benefits. We utilise customer information obtained with the card when planning store-specific selections, targeting our marketing, and planning the store network.

WE WANT TO BE THE MOST ATTRACTIVE WORKPLACE IN THE TRADING SECTOR

Kesko and its chains' K-retailer entrepreneurs employ some 45,000 professionals and experts in trade. The wellbeing, competence and improvements in labour productivity of our employees are important to us. We will continue long-term projects in different companies for promoting wellbeing at work. We will improve labour productivity primarily by enhancing the efficiency of operating practices.

The Master Sales Assistant Training, organised by our own training centre, the K-instituutti, is one of the largest annual vocational training events for adults in Finland. The Master Sales Assistant Training was attended by more than 17,000 students in 2009.

WE CONTINUE OUR SUSTAINABILITY WORK AND ARE COMMITTED TO ENERGY SAVINGS

Kesko has established a top ranking in comparisons measuring the sustainability of international listed companies.

Kesko is included in the Dow Jones sustainability indexes, DJSI World and DJSI STOXX, and also in the FTSE4Good indexes, for example. We also continue on the 'The Global 100 Most Sustainable Corporations'

list published by the World Economic Forum.

We are proud for the appreciation shown by international independent sustainability experts and different assessment institutes towards our work.

This work will continue: we have drawn up a comprehensive responsibility programme for 2008–2012. The programme sets concrete targets, for instance, for combating climate change, wastage reduction, transportation, responsible purchasing and employee wellbeing.

As part of the implementation of the responsibility programme we have signed the trading sector energy efficiency agreement and committed to saving more than 65 GWh by the end of 2016.

THANKS TO EMPLOYEES, SHAREHOLDERS, K-RETAILERS AND ALL BUSINESS PARTNERS

I wish to extend my warmest thanks to all Kesko employees for their diligence and for a job well done. I would also like to thank all shareholders, K-retailers and their staff, and all our business partners for good cooperation during 2009.

Matti Halmesmäki
President and CEO

*A 12-year-old genetically Finnish red oak was planted in Katajanokka Park, next to Kesko's main office building, at the Fiskars Orange Thumb charity event in October 2009. Kesko's President and CEO **Matti Halmesmäki**, Helsinki Mayor **Jussi Pajunen**, and Fiskars Group President and CEO **Kari Kauniskangas**, the host of the event, all did their part with spades.*

Year 2009 in brief

- The Kesko Group's net sales from continuing operations totalled €8,447 million (€9,591 million)
- Operating profit excluding non-recurring items was €155.4 million (€217.0 million)
- Profit before tax was €216.6 million (€288.5 million)
- The Kesko Group's earnings per share were €1.27 (€2.24)
- Earnings per share excluding non-recurring items were €0.71 (€1.44)
- The Board of Directors proposes to the Annual General Meeting that €0.90 per share be distributed as dividends for 2009

Net sales and profit

The deterioration in the general economic situation in 2009 affected sales particularly in Kesko's car and machinery trade and in the building and home improvement trade. Sales growth remained stable in the food trade.

Net sales decreased by 11.9% from the previous year. In Finland, net sales dropped by 7.5% and in other countries by 28.1%.

The K-Group's sales (incl. VAT) to retail and B2B customers were €12,614 million, representing a decrease of 9.1% from the previous year.

Net sales in the food segment increased by 2.4% and the grocery sales of K-food stores increased by 5.6% (VAT 0%) from the previous year. The sales growth of Pirkka products was particularly good. The K-citymarket's sales also performed well and showed an increase of 14.3% in food sales.

Net sales in the home and speciality goods segment decreased by 3.0%. Sales of home electronics and interior decoration items suffered from the weaker economic situation and growing unemployment. Towards the end of the year, however, sales started to pick up. Sales of clothing and sports items increased in particular and Christmas sales were very successful.

In the building and home improvement segment, net sales dropped by 22.4%. In Finland, the decline in net sales can be mainly attributed to the drop in B2B sales. In other countries, the decrease in net sales resulted from lower demand and the weakening of the Swedish krona, the Norwegian krone, and the Russian rouble. The construction market declined substantially in the Nordic and Baltic countries, and in Russia.

In the car and machinery trade, the market remained difficult and net sales decreased by 36.0%. The demand for cars dropped, but Audi, Volkswagen and Seat succeeded in increasing their market share to 18.5% (17.1%). The number of

orders grew towards the end of the year. Konekesko's net sales dropped due to the weakened machinery market and the discontinuation of the Baltic grain and agricultural supplies trade.

Operating profit well short of the previous year

Operating profit excluding non-recurring items amounted to €155.4 million (€217.0 million). Non-recurring items totalled €77 million and they include a €93 million gain on the sale of properties. Non-recurring expenses include a €14.4 million impairment charge on properties.

The decrease in the operating profit excluding non-recurring items compared with the previous year can be attributed to weakened demand in the building and home improvement trade in particular and in the car and machinery trade.

Kesko is transferring statutory employee pension insurance to Ilmarinen

Kesko has decided to transfer management of the statutory pension provision and the insurance portfolio to Ilmarinen Mutual Pension Insurance Company in two phases, starting 1 June 2010. The Kesko Pension Fund's statutory employee pension insurance (department B) covers about 8,700 people, and the first phase of the transfer will concern some 3,600 people. The transfer is estimated to have a positive effect on Kesko's cash flow. The transfer is subject to the approval of the Financial Supervisory Authority and the Finnish Competition Authority. The second phase will be implemented at the beginning of 2012 at the earliest.

Number of shareholders increased

The number of shareholders totalled 38,888 at the end of 2009, an increase of 808 from the beginning of the year. Foreign shareholders owned 30% of the B shares at the end of 2009.

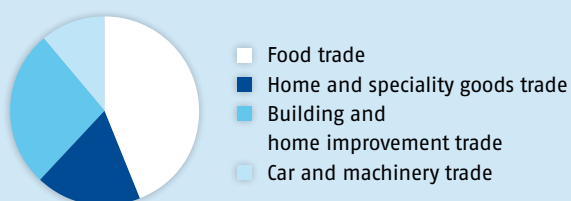
Performance indicators for 2009

Key figures

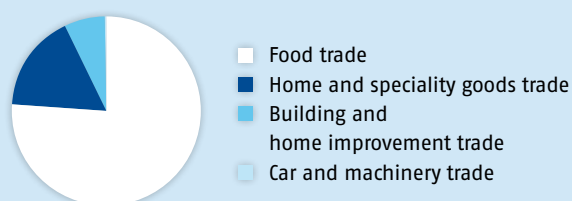
		2009	2008	Changes
Net sales*	€ million	8,447	9,591	-11.9%
Operating profit*	€ million	232	286	-18.7%
Operating profit excl. non-recurring items*	€ million	155	217	-28.4%
Profit before tax*	€ million	217	289	-24.9%
Return on capital employed	%	11.0	15.2	-4.2 pp
Return on equity	%	6.6	12.1	-5.5 pp
Cash flow from operating activities	€ million	379	131	(..)
Investments*	€ million	198	338	-41.5%
Equity ratio	%	54.1	52.4	1.8 pp
Gearing	%	-12.5	2.3	-14.8 pp
Dividend per share	€	0.90**	1.00	-10.0%
Earnings per share, diluted	€	1.27	2.24	-43.1%
Equity per share, adjusted	€	20.39	20.09	1.5%
Personnel, average*		19,184	21,327	-10.0%

*continuing operations **proposal to the AGM (..) change over 100%

Net sales by division*



Operating profit excl. non-recurring items by division*



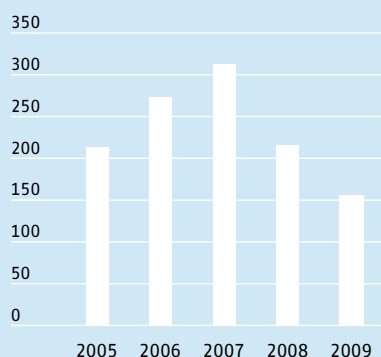
Group's net sales*

€ million



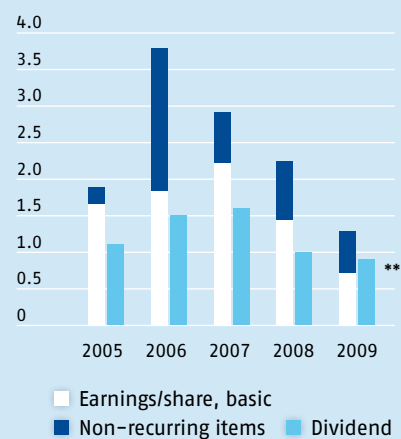
Group's operating profit*

excl. non-recurring items, € million



Earnings/share and dividend/share,

€



*continuing operations **proposal to the AGM



09

Strategic objectives

Kesko is a highly valued listed trading sector company. It manages retail store chains that are valued by customers and efficiently produces services for retail store chains' purchasing, logistics, network development and data management. Kesko's operations include food, home and speciality goods, building and home improvement, and car and machinery trade. Its division parent companies and chains act in close cooperation with retailer entrepreneurs and other partners. Kesko operates in the Nordic and Baltic countries, Russia, and Belarus.

Strategic objectives

HEALTHY, PROFITABLE GROWTH

- Our targeted sales growth exceeds that of the market
- We increase the shareholder value by improving profit
- We implement the strategy of selective internationalisation
- We expand our store network

SALES AND SERVICES FOR CONSUMER CUSTOMERS

- Our customer satisfaction exceeds that of competitors
- Retailers' knowledge of local customers' needs is our competitive asset
- We use loyal customer information efficiently in our customer programmes
- We develop e-commerce and services

RESPONSIBLE AND COST-EFFICIENT BUSINESS MODELS

- Our operating practices are responsible
- We efficiently combine retailer entrepreneurship and chain operations
- We leverage our economies of scale and competence to the benefit of customers
- We guide our business through efficient data management

Customer-driven business models



Objectives include customer satisfaction exceeding that of competitors

Healthy, profitable growth OBJECTIVES INCLUDE CUSTOMER SATISFACTION EXCEEDING THAT OF COMPETITORS AND INCREASING SHAREHOLDER VALUE

Kesko's key strategic objectives in all store chains include achieving a level of customer satisfaction and sales growth that exceeds the level achieved by competitors. Shareholder value is increased by long-term profitable growth. Objectives also include maintaining good solvency and liquidity in all market conditions. The target return on equity is 12%, while the target return on capital employed is 14%.

KESKO IMPLEMENTS A STRATEGY OF SELECTIVE INTERNATIONALISATION

The objective is to invest in healthy, profitable growth, while taking the market situation and customer demand into consideration.

Investments in the food trade are directed at expanding and refurbishing the store network in Finland. In addition, expanding business to the Russian market is studied.

In the building and home improvement trade, the international store network will be expanded in the next few years mainly in Russia, with the focus on the retailing markets of the St. Petersburg and Moscow regions. In addition to investments in new store sites, business growth may also be achieved through acquisitions. The Russian market in particular is considered to offer significant long-term growth potential in the home building and decoration trade. Synergy benefits are achieved through joint cat-

egory management and sourcing, which are supported by investments in the joint enterprise resource planning system and centrally directed logistics network.

Sales and services to consumer customers

CUSTOMER SATISFACTION EXCEEDING THAT OF COMPETITORS

The strategic emphasis lies on sales to consumer customers. The objective is to achieve a level of customer satisfaction and sales growth that exceeds the level achieved by competitors. Success in the consumer customer trade requires clear customer and brand promises and the fulfilment of these promises during every store visit.

Customer promises are fulfilled through high-quality and competitively-priced products, a comprehensive store network and good service.

Kesko has dozens of successful chain and product brands that are managed and developed according to customer needs. The objective of brand development work is to increase the value of brands and to improve the efficiency of marketing.

The creation of customer-driven selections and targeted marketing are supported by the K-Plussa customer loyalty system, whose reward and payment card features have undergone reforms in recent years. The K-Plussa customer loyalty programme operates on three levels: benefits granted to customers are either store-specific, chain-specific or provided across the entire K-Plussa network. The objective of the system is to offer significant prod-

Breakdown of Kesko's net sales by business model, %



- Retailer entrepreneurs' retailing 51%
- Kesko's own retailing 27%
- B2B sales 22%

Financial objectives and their realisation

The objectives announced on 5 Feb. 2009	Target level	Realised in 2009	Realised in 2008
Net sales growth	Growth rate exceeding that of the market	Realised*: Food trade, sports trade, building and home improvement trade (Finland), car and machinery trade	Realised: VV-Auto, Intersport Finland, Kenkäkesko
Return on equity	12%	6.6%, excl. non-recurring items 3.8%	12%, excl. non-recurring items 8.1%
Return on capital employed	14%	11.0%, excl. non-recurring items 7.3%	14%, excl. non-recurring items 10.0%
Interest-bearing net debt/EBITDA	< 3	-0.7	0.1
Equity ratio	40–50%	54%	52%
Economic value added	Growing positive EVA as internal indicator	Not realised	Not realised

*Kesko's own estimate

uct and service benefits to customers, encouraging them to centralise their purchases in the K-Group. The use of customer information has been enhanced in key business areas. Chains and stores utilise customer information in their selection planning, pricing, marketing and store network planning, for example.

CUSTOMER-DRIVEN BUSINESS MODELS

The business models applied in Kesko's sales to consumer customers are retailing through retailer entrepreneurs and Kesko's own retailing. Kesko is also engaged in B2B sales.

1) Retailer entrepreneurs' retailing

The principal business model in the Finnish market is the chain business model, in which independent K-retailers run retail stores in chains managed by Kesko. In Finland, all food and building and home improvement stores in the K-Group are run by retailer entrepreneurs. Through its chain operations, Kesko provides a first-class setting for its retailer entrepreneurs to provide the best possible service to their customers. The K-retailer entrepreneur is responsible for his or her store's customer satisfaction, personnel and business profitability. Good service and knowledge of customer needs provide the K-Group with a competitive edge.

At the end of 2009, Kesko had 1,302 K-retailer entrepreneurs as partners and, in addition, about 250 other retailer partners in the Asko, Sotka, Bygghälsan and Senukai chains. Kesko's sales to retailer partners accounted for 51% of net sales in 2009.

2) Kesko's own retailing

Kesko acts as a retailer in business operations where the competitive advantage derives from the centrally managed chain concept and large units. Kesko's own retail stores in Finland include the Anttila and Kodin Ykkönen department stores. In addition, Kesko is also responsible for retailing home and speciality goods in the K-citymarket chain. Kesko's own retailing is also the model mainly used in expanding business operations outside Finland. In 2009, Kesko's own retailing accounted for 27% of net sales.

3) B2B sales

Kesko is engaged in B2B sales in those business operations in which B2B sales support consumer customer sales. Typical business customers include construction companies, agricultural entrepreneurs, the manufacturing industry, institutional kitchens and the public sector. In 2009, Kesko's B2B sales accounted for 22% of net sales.

ELECTRONIC CUSTOMER COMMUNICATIONS AND E-COMMERCE

The importance of electronic customer communications in trading has increased continuously. Kesko is developing online customer communications and the chains' online trading sites. The objective is to improve customer satisfaction and to increase sales. Kesko has gained a strong position in online sales of home and speciality goods through the NetAnttila, Kodin1.com, Konebox.fi and Budget Sport online stores.

Responsible and cost-efficient business models

SUSTAINABLE DEVELOPMENT AND RESPONSIBLE OPERATING PRACTICES

The principles of sustainable development and responsible operating practices are a central part of Kesko's and its chains' daily activities. Consumer customers require the trading sector to take responsibility for products' safety and health effects, and for the environmental and social impact of business operations. The results of responsible operations are reported annually in Kesko's Corporate Responsibility Report.

EFFICIENT COMBINATION OF RETAILER ENTREPRENEURSHIP AND CHAIN OPERATIONS AND BENEFITTING FROM ECONOMIES OF SCALE

The strategic objective is to efficiently combine K-retailer entrepreneurship and chain operations. K-retailers are responsible for customer service, local selections and fulfilling the customer promise in their stores.

Kesko's efficient chain operations and joint processes provide support to retailers. Chain operations offer the retailer a joint business concept which includes, among other things, chain control related to chain selection, pricing and marketing, and business management support. Joint

chain operations carried out by retailers and Kesko are further enhanced by developing increasingly better tools and business models for the stores. The most important of these are regional and store-specific selections and pricing guidance as well as tools for customer relationship and store personnel management.

Kesko participates in international purchasing cooperation in various product lines, which increases purchasing volumes and efficiency. The most important partnership organisations in which Kesko participates include AMS Sourcing B.V. in the grocery trade, tooMax-x in the building and home improvement trade, Intersport International Corporation in the sports trade, and Electronic Partner International in the home technology trade.

WORK AND PRODUCTIVITY PROGRAMME

Cost-efficient operations build price competitiveness and customer satisfaction in the retailing sector. Cost-efficiency is also a basic requirement for increasing Kesko's profitability and shareholder value.

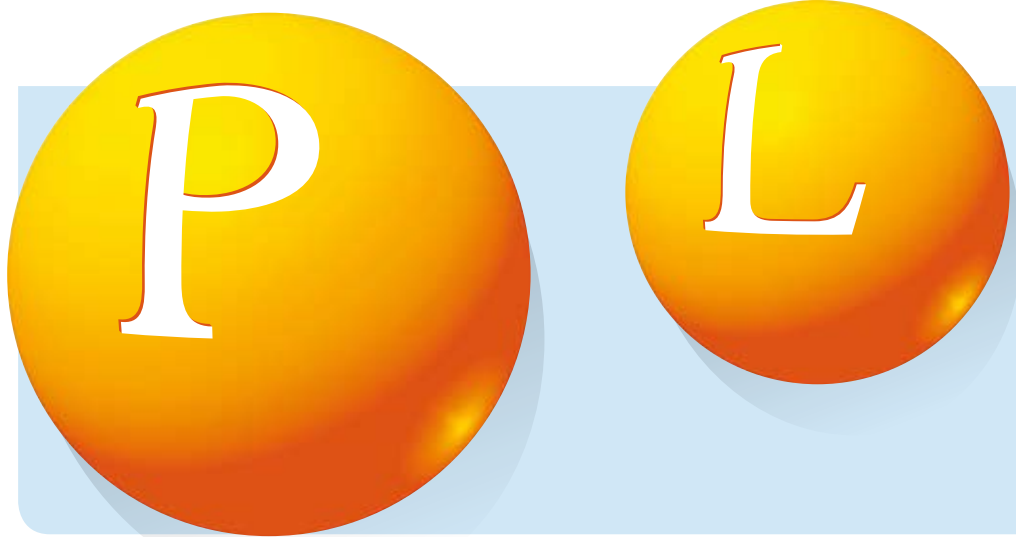
One of the key objectives of the work and productivity programme launched is to increase employees' work productivity in Kesko and the chain stores. The most important tools for improving productivity include increasing personnel competence and the efficiency of operating practices. Promoting the wellbeing of employees has also become an increasingly important factor. Retail stores also focus on enhancing the productivity of store space and inventories.

ELECTRONIC AND AUTOMATED PROCESSES

A project to automate processes and routines with the goal of improving cost-efficiency is underway in Kesko. Key areas in process automation include logistics automation projects, the forecast systems and automated orders that improve the availability of products in stores, the adoption of electronic purchase and sales invoices, and the automation of financial management routines in the shared services centre of the Kesko Group.

More detailed information on each division's strategic emphases and projects is provided in the division-specific presentations starting on page 14.

K-Plussa is the biggest customer loyalty programme in Finland



The widest and most diverse customer loyalty programme in Finland provides K-Plussa customers with benefits from more than 3,500 outlets and over 40 cooperation partners. Local K-retailers and the K-Group chains offer special benefits and services targeted to their K-Plussa customers. K-Plussa customers also get special benefits that are always at least 10% of the normal price. The benefit received in the form of K-Plussa points is up to 5%. In 2009, the K-Plussa customer loyalty programme gained 190,596 new customers and reached the landmark of two million households.

By concentrating their purchases, K-Plussa customers get benefits and services that are based on their needs and shopping behaviour. The K-Plussa customer loyalty system operates on three levels: benefits granted to customers are either store-specific, chain-specific or provided across the entire K-Plussa network. Targeted marketing communications and special offers as well as electronic channels gained more importance in 2009 at all three levels of the K-Plussa customer loyalty programme.

Retailer cater for customers

Research has shown that special benefits and services provided by stores for K-Plussa customers increase customer satisfaction and store visits.

Customer information obtained via the K-Plussa card is used in planning store-specific selections and services and in targeting the store's marketing messages. Targeted marketing both in electronic and traditional media is more cost-efficient and often attracts more attention. For example, results obtained from special benefits and events targeted to customers have been extremely good.

K-Group chains' operations are based on customer information

At the chain level, customer information obtained via K-Plussa is leveraged in network planning and concept development, for example. Chain-level customer information is also useful when building the chains' selections and services to meet the needs of customers as well as possi-

ble. Many chains have built loyalty schemes for their important customer groups, such as Kodin Ykköinen's Ykkösasiakas programme.

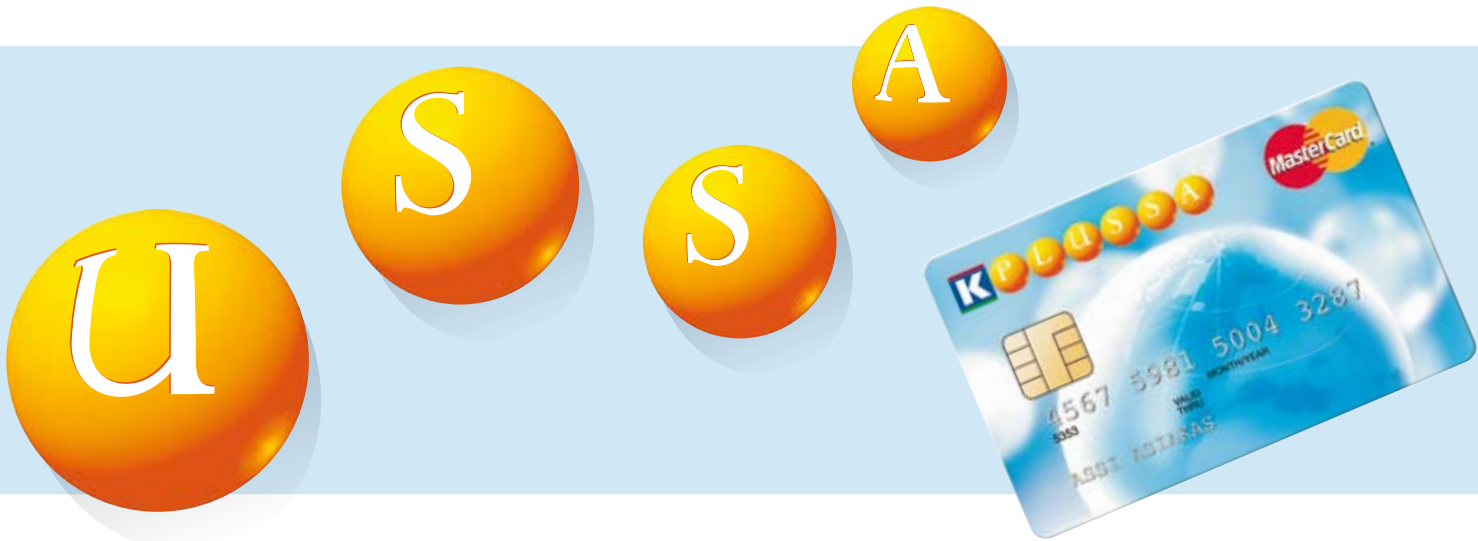
Benefits for all K-Plussa customers

K-Plussa offers significant benefits available for all customers: each month hundreds of topical K-Plussa offers, which always reward customers with a discount of at least 10%, provided at the checkout. By centralising their purchases in the K-Plussa network, customers receive a reward of up to 5% in the form of K-Plussa points.

A joint benefit launched for all K-Plussa customers shopping at K-food stores in 2009 is the new electronic Nutritioncode service, which enables customers to monitor, free of charge, how healthy their purchases are. The electronic service registers the purchases made by the household in K-food stores and provides the users with information and hints on the nutrition values of the groceries purchased.

The importance of targeted electronic communications continues to grow. Customers who have agreed to electronic marketing receive a K-Plussa e-newsletter once a month. K-Group chains and stores also approach their customers with personal e-mail offers. Customers can deposit their K-Plussa points into their account with any bank.

As a customer benefit, K-Plussa customers receive Pirkka, the most widely read magazine in Finland. Readership of



the Pirkka magazine continued to increase in 2009 (source: the National Readership Survey).

Andiamo Club's electronic customer loyalty card was launched in 2009. Andiamo Club members can download their electronic membership cards to their mobile phones. The card works like a normal plastic loyalty card and the customer's personal K-Plussa data may also be combined with it. Customers can opt to receive new benefits and special offers direct to their mobile phones.

New partners to the K-Plussa network

The K-Plussa network became increasingly diversified during 2009. In April, more than 100 Instrumentarium outlets throughout Finland joined the K-Plussa network. In addition to the K-stores and the K-Group chains, the K-Plussa network includes over 40 leading operators in their sectors. K-Plussa customers' total benefits have improved considerably during the year and the number of cooperation partners will continue to grow.

2009 brought more K-Plussa card benefits for leisure activities for the whole family. Visits to all Finnish HopLop indoor adventure parks now accrue K-Plussa points. HopLop is the biggest chain of year-round children's adventure parks in the Nordic countries.

Cooperation started between K-Plussa and Flamingo Spa. The Spa, located in the Greater Helsinki Area, comprises a large water park for the whole family and a spa & wellness world for adults. Since the

beginning of 2009, customers have also been able to accrue K-Plussa points from food and beverages served by Center Inn restaurants in Helsinki.

More than 100,000 new K-Plussa households

In 2009, the K-Plussa customer loyalty programme reached the landmark figure of two million households. More than 3.6 million Finns already have a K-Plussa card. There are nearly 850,000 K-Plussa co-branding cards with OP-Pohjola and Nordea. In 2009, the K-Plussa customer loyalty programme gained 190,596 new customers.

To enable us to develop rewarding and customer programmes, we need a sufficient amount of information about customer relationships and the competence to analyse and leverage this information. K-Plus Oy collects and analyses this information in the K-Group.

Customers' privacy protection is ensured when customer information is collected and made use of. K-Plus Oy processes customers' purchasing data on the sum total or product group level. Anonymous receipt line level purchasing data may also be used. Customer information and programmes play a key role in business planning.

Wellbeing in the K-Plussa network

The K-Plussa network became increasingly diversified in April 2009, when consumer customers started to receive K-Plussa points from over one hundred Instrumentarium outlets throughout Finland. Thanks to this cooperation, K-Plussa benefits were extended to include wellbeing products and expertise.





Kesko Food is a strong operator in the Finnish grocery trade. K-retailers are responsible for customer satisfaction at the more than 1,000 K-food stores. Kesko Food manages K-citymarket's food trade and the K-supermarket, K-market and K-extra chains. Kesko Food's main functions include the centralised purchasing of products, selection management, logistics, and the development of chain concepts and the store site network. Chain operations ensure the efficiency and competitiveness of business. Kesko Food's subsidiary Kespro Ltd is the leading wholesaler in the Finnish HoReCa business. It offers the best sourcing solutions in the sector for its customers.

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Food trade

Kesko's brands in the food trade



Food segment's net sales

€3,798 million

Food segment's operating profit
excluding non-recurring items

€133.1 million

K-food stores focus on food and service



Customer information as part of high-quality operations

Customer information and understanding provide the basis for Kesko Food's business development. Leveraging of customer information relies on information produced by K-Plus Oy that is collected locally both at the customer and product group levels. Store- and chain-specific programmes as well as those available across the entire network are developed on the basis of the information to ensure that selections are as suitable and the service experience as good as possible for the customers. Customer information serves as a basis for the development of selections, concepts, network planning and marketing, for example.

A K-food store is a quality store, which provides customers with the best food ideas and meal solutions at favourable prices. K-food stores operate efficiently and offer the widest and most exciting selections, and have the best fresh produce departments. Every K-food store stocks a wide range of Pirkka products, which are valued by customers, of high quality and sold at permanently low prices. The K-Plussa customer loyalty programme rewards customers for centralising their purchases and the K-Plussa card also provides versatile benefits. Customer programmes help cater for loyal K-Plussa customers on an individual basis. The main purpose of the customer programmes is to locally offer the exact selections and services needed by particular customers.

Market

The Finnish grocery market totalled some €14.7 billion in 2009, representing a growth of 3–4% from 2008 (own estimate). The increase was biggest in the hypermarkets in the largest size category (over 2,500 m²).

In addition to K-food stores, primary operators in the market include Prisma, S-market and Alepa/Sale (S Group), Valintatalo, Siwa and Euromarket (Suomen Lähikauppa Oy), and Lidl. The estimated market share of the K-food stores is 34% (own estimate).

In 2009, the HoReCa market's (hotels, restaurants and catering) purchases in Finland totalled about €2.4 billion (own estimate). Kesko Food's subsidiary Kespro Ltd is the leading wholesaler in the Finnish HoReCa business. Kespro's main competitors are Meiranova Oy, Metro Chain and Heinon Tukku Oy. Kespro strengthened its position in 2009 and achieved its best-ever customer satisfaction rate.

The aim is a satisfied customer

K-food stores are visited by nearly 900,000 customers every day. Successful customer encounters every time are a prerequisite of overall success and are ensured with:

- The widest and most exciting selections, and an extensive selection of new arrivals.

- The best fruit and vegetable, meat and fish, and bread departments.
- High-quality and safe, permanently low-priced Pirkka products. The range now comprises more than 1,800 items.
- The best food expertise, including a diversified supply of recipes and cooking advice.
- The K-Plussa customer loyalty programme, which rewards centralisation of purchases. The K-Plussa card entitles holders to benefit from diverse special offers.
- The help of customer loyalty programmes, which offer K-Plussa customers exactly the selections and services they need locally.
- Responsible operations, including active development of the Pirkka Fairtrade product range.

Favourable prices are a prerequisite for growth and customer satisfaction. The basis for favourable prices is built with the help of the selection that is available throughout the chain, permanently low-priced Pirkka products, the chain's campaigns and store-specific activities. Permanently low prices are reinforced by efficient practices all the way from customer to supplier, chain operations and long-term cooperation models with selected partners.

Considerable benefits are obtained both in Finland and internationally by combining purchasing volumes. Kesko Food is a member of the international sourcing alliance, Associated Marketing Services (AMS), that has rapidly expanded. Other major members of AMS include Ahold, Dansk SG, ICA, Migros and Système U.

K-retailers are responsible for customer satisfaction

Local K-retailers are responsible for the customer service, competence of personnel, quality, and profitability of business. Making use of customer data, the retailer builds a selection and service that meets customer needs, offering, for example, food from local producers to complement joint selections of the chain.

In order to ensure high quality, K-food stores have their own quality system. Its

objective is to ensure continuous development of the operations of the store and the whole chain to best serve the customers. The system includes measuring customer satisfaction and the store's condition, and assessing price control and management. The best retailing competence is maintained with the help of constant training in cooperation with the K-instituutti, the K-Group's training centre.

Efficient cooperation between Kesko Food and the K-food retailer is based on the chain operations defined in the chain agreement. Chain operations ensure customer-orientation, operational efficiency, competitiveness and the attainment of competitive advantages.

High-quality Pirkka products are K-food stores' strength

Pirkka products combine quality and low prices. The total number of Pirkka products reached 1,826 by the end of the year. According to consumer studies, customers feel that Pirkka products are an easy and safe choice because of their high quality and low price.

The Pirkka range also includes Pirkka Organic and Pirkka Fairtrade products. There are now more than 40 Pirkka Organic and nearly 30 Pirkka Fairtrade products.

The quality of Pirkka products is assured by Kesko Food's own Pirkka Product Research Unit, which carefully analyses all new Pirkka products. The research unit's laboratory has the ISO 17025 accreditation, an international recognition of competence. It is the only ISO 17025 accredited laboratory in Finland responsible for the quality assurance of own-brand products in the trading sector.

All Kesko Food's own recipes have been developed and tested by the Pirkka test kitchen, which is part of the Pirkka Product Research. Diverse recipes are published in the Pirkka magazine, which is mailed to K-Group loyalty customers, in the online cookery book on Pirkka.fi, in the K-RuokaPirkka leaflet that is published monthly and available at all K-food stores, on the TV programme "What are we having today?", and on Pirkka product packaging.

Quality guaranteed by the letter K and the chain concepts

Strong chain concepts guarantee the high quality of K-food stores. Kesko Food's chain operations provide K-retailers with a strong basis for purchasing, building selections, marketing and price competition.

K-citymarkets offer their customers the most diversified selections of groceries and home and speciality goods. Their special strengths include fresh bread, fruit and vegetables, a diversified supply of foods, and exiting departments with their displays. K-citymarkets provide their customers with a low-priced shopping basket and the best offers – every day.

There are 69 K-citymarkets in Finland in 51 towns. Five new K-citymarkets were opened in 2009.

The **K-supermarkets'** strength is excellent service. In addition to the retailer and other staff, customers are also served by over 160 employees with a specialist food manager qualification. These meat and fish experts provide customers with cooking tips and advice. K-supermarkets are better than the average food stores and offer wide selections of food items at competitive prices.

The chain consists of 170 stores. In 2009, four new K-supermarkets were opened.

K-markets are reliable, service-oriented and local neighbourhood stores located near to customers. In addition to good basic selections, K-markets offer customers fresh bread straight from the store's oven, fresh, high-quality fruit and vegetables, and the best local services.

The chain comprises 487 stores. 15 new K-markets were opened in 2009.

K-extras are neighbourhood stores which focus on personal service and provide customers with daily essentials. Additionally, as the name implies, many K-extras located in the countryside offer extra services, such as the sale of agricultural and builders' supplies, fuel distribution, lottery and postal services.

The chain comprises 189 stores.



Everyone has a favourite in the diversified Pirkka range

The "My favourite" campaign encouraged Finns to vote for their Pirkka favourites in August 2009. The campaign site was visited more than 500,000 times and over 190,000 votes were cast. The fun campaign focused on the diversity of the Pirkka range in everyday food solutions. The range now comprises over 1,800 products. The number one favourite among Finns was the Pirkka AB rye nut yoghurt.



High-quality Pirkka products are tested and safe

All new Pirkka products are carefully analysed by Kesko Food's own Pirkka Product Research. The unit was awarded the ISO 17025 accreditation, an important international recognition for competence, in March 2009 as the only laboratory in Finland responsible for quality assurance for the trading sector's own brands. The Pirkka Product Research includes the Pirkka test kitchen, which creates and tests recipes for everyday and special purposes alike.

Development of the store network continues

At the end of 2009, there were 1,030 K-food stores, catering for various consumer needs ranging from daily local services to the wide range of clothing and other home and speciality goods stocked by hypermarkets. The K-food store network is the most comprehensive in Finland. 51% of Finns live less than a kilometre away from a K-food store. The K-Group's neighbourhood store network is the most comprehensive in Finland. The total number of K-markets and K-extras is 676.

Kesko Food develops the K-food store network by investing in stores of all sizes. The constant development of the network is required to meet the needs of ageing stores, expanding selections, new services and migration.

Year 2009

The food segment's net sales totalled €3,798 million in 2009, an increase of 2.4%. The operating profit excluding non-recurring items amounted to €133.1 million, which is €10.5 million up on the previous year.

The value added tax on retail sales of food was reduced at the beginning of October. Kesko Food and K-food retailers undertook to implement the reduction in full on food prices. The price monitoring survey published by the National Consumer Research Centre in November verified that at K-food stores food prices decreased even more than the VAT cut. Due to the reduction, K-food stores changed more than 6 million prices. A family who spent about €5,000 on food per year before the VAT decrease will now save €215 a year.

The Act to extend retail store opening hours came into force at the beginning of December. The amendment meant that

another 400 K-food stores would be able to benefit from extended Sunday opening hours. The total number of K-food stores is 1,030. For customers, this means much better accessibility to retail services. The fact that the stores no longer have to stay closed one day a week also improves efficiency and reduces waste, because total demand is easier to predict.

During the year, five new K-citymarkets, four K-supermarkets, and 15 K-markets were opened. A total of 25 new food stores were opened, one of which replaced an existing store. Several K-food stores were also extended and renovated in 2009.

Objectives and strategic emphases

Kesko Food's key objective is to increase market share. The implementation of Kesko Food's strategy aims at growth faster than the market, increased customer satisfaction and competitiveness. Kesko Food's opportunities for internationalisation are also being actively investigated, particularly in Russia.

Kesko Food's key strategic focuses include increasing the efficiency of operations and enhancing electronic customer communications. Automated processes play a central role in increasing the efficiency of operations. In addition to more targeted information on the products and services available at K-food stores, electronic customer communications also provide customers with new methods of handling their customer relationship matters online. Opportunities for food retailing online are also being explored. The premise is that the retailing sector and electronic transactions should support customer needs and make shopping easier.

Competitors

Finland, market share 34%

(own estimate)

Competitors: Prisma, S-market and Alepa/Sale (S Group), Valintatalo, Siwa and Euro-market (Suomen Lähikauppa Oy) and Lidl

HoReCa, Finland, Kespro

Competitors: Meiranova Oy, Metro Chain, Heimon Tukku Oy

K-Group's food trade, retail and B2B sales

	Number		Sales (incl. VAT) € million	
	2009	2008	2009	2008
K-citymarket, groceries	69	64	1,412	1,249
K-supermarket	170	163	1,633	1,580
K-market (incl. service station stores)	487	490	1,502	1,494
Others	304	338	344	362
K-food stores, retail sales			4,891	4,685
Kespro			811	837
Food trade, total	1,030	1,055	5,703	5,521

Food segment's key figures, continuing operations

		2009	2008
Net sales	€ million	3,798	3,707
Operating profit	€ million	170.6	185.5
Operating profit excl. non-recurring items	€ million	133.1	122.5
Operating profit as % of net sales excl. non-recurring items	%	3.5	3.3
Investments	€ million	69.4	139.7
Return on capital employed* excl. non-recurring items	%	20.9	19.3
Personnel average		3,035	3,440

* cumulative average

Food segment's net sales, continuing operations

	€ million	change, %
K-citymarket	854	12.1
K-supermarket	1,001	3.7
K-market and K-extra	1,067	-2.5
Kespro	677	-2.6
Others	199	4.1
Net sales, total	3,798	2.4

Food segment's capital employed at 31 December, € million

	2009	2008
Non-current assets	632	704
Inventories	90	91
Short-term receivables	371	380
./. Non-interest-bearing debt	-489	-510
./. Provisions	-8	-8
Capital employed**	596	657

** capital employed at the end of month



09

Home and speciality goods trade

Kesko's home and speciality goods trade operates in the clothing, home, leisure, home technology, entertainment and furniture product lines. The home and speciality goods trade comprises Anttila Oy, K-citymarket Oy, Intersport Finland Ltd, Indoor Group Ltd, Musta Pörssi Ltd and Kenkäkesko Ltd. The total number of home and speciality goods stores is 450, of which 199 are owned by Kesko.

Kesko's brands in the home and speciality goods trade

ANTTILA

K CITYMARKET

NETANTTILA.COM

KODINYKKÖNEN 1

INTERSPORT

kesport

**budget
sport**

ASKO

SOTKA

**MUSTA
PÖRSSI**

KONEBOX

ANDAMO

K-KENKÄ



Home and speciality goods
segment's net sales

€1,558 million

Home and speciality goods
segment's operating profit
excluding non-recurring items

€29.5 million

Diversified selections and well-known brands



Market and the operating environment

Kesko's home and speciality goods trade comprises well-known store concepts with a strong position in the hypermarket, department store, speciality store and online sales. The Finnish total market of home and speciality goods is estimated to be approximately €10 billion.

The economic recession has highlighted the importance of price. Customers are looking for opportunities to save and campaigns have become more and more important. In 2009, there were differences in the market development of various product lines in the home and speciality goods trade. Consumer demand for sports goods increased, while demand for home electronics and interior decoration items in particular declined.

The estimated market of home interior decoration and furniture is €1,800 million, representing a decrease of 5–10% from the previous year.

The market for home electronics and entertainment is estimated to total some €2,000 million, representing a change of about –13%.

The estimated sports trade market totals €900 million and increased by some 5% from the previous year.

The value of the shoe trade market declined by some 3–4% from the previous year.

Year 2009

Since the beginning of 2009, Anttila Oy, K-citymarket Oy, Intersport Finland Ltd, Indoor Group Ltd, Musta Pörssi Ltd and Kenkäkesko Ltd have been reported in the

home and speciality goods segment. During the year, Anttila, K-citymarket's home and speciality goods and other Group's home and speciality goods companies intensified their cooperation. The objective of the cooperation is to improve competitiveness by defining the companies' joint strategy, developing retailing expertise on a centralised basis and ensuring that customers find the concepts interesting. Synergy benefits are sought, above all, in purchasing, in the development of the store network and through uniform, efficient business processes.

Kesko's net sales of home and speciality goods totalled €1,558 million in 2009, a decrease of 3.0%, which can be attributed to the deteriorated financial situation and the increase in unemployment. The combined retail sales of home and speciality goods stores were €2,050 million, a decrease of 3.1%.

The operating profit of the home and speciality goods trade excluding non-recurring items was €29.5 million, representing a decrease of €1.7 million from the previous year.

Objectives and strategic emphases

Changes in the financial situation and consumption habits are strongly reflected in the home and speciality goods trade. Internationalisation and formation of chains will strengthen competition, and successful chains are based on efficient business models. Seasons and collections change faster than ever, while product series become smaller and their life cycles shorter.

The cooperation of the Kesko Group's home and speciality goods companies started in 2009 will be further intensified.

The K-Group's home and speciality goods trade aims to be a market leader in selected product lines. This will be achieved by enhancing store concepts and selections, by increasing the cost-efficiency of operations chains and the staff's sales and service competence.

Hypermarket trade – K-citymarket

K-citymarket is a diversified and favourably-priced hypermarket chain, which offers its customers wide selections of groceries and home and speciality goods. K-citymarket Oy is responsible for the home and speciality goods business in these stores, while K-retailer entrepreneurs are responsible for the food business. There are 69 K-citymarkets in Finland.

K-citymarkets offer their customers up-to-date, frequently changing selections of everyday goods, quickly and at low prices. Key success factors include chain management and marketing combined with efficient, centralised purchasing and logistics. K-citymarket Oy's operations are based on long-term strategy and systematic leveraging of customer information in operations management.

The K-citymarket chain has approximately 60 million customer visits per year and a staff of some 5,700 employees in customer service.



YEAR 2009

In 2009, the net sales of K-citymarket's home and speciality goods totalled €595 million, which represented an increase of 5.1%. K-citymarket Oy's retail sales amounted to €699 million.

In 2009, five new K-citymarket hypermarkets were opened: in Ylöjärvi, in the Skanssi shopping centre, Turku, in Kirkkonummi, in Linnainmaa, Tampere, and in Koivukylä, Vantaa.

Department store trade – Anttila

Anttila retails entertainment, fashion and home goods. The multi-channel Anttila has 29 Anttila department stores and two smaller speciality stores in Finland. The nine Kodin Ykkönen department stores for interior decoration and home goods are complemented with the Kodin1.com online store. NetAnttila is engaged in distance sales in Finland, Estonia and Latvia.

Anttila department stores provide diversified selections of leisure items, clothing and home goods combined with a low price level and friendly service. The TopTen departments are the largest retailer of music, movies and multimedia in Finland, and a major seller of information technology and electronics.

Kodin Ykkönen provides a superior selection and services for home decorators.

For several years, NetAnttila has been the best-known and most popular online department store in Finland. It offers a pioneering position, ease and reliability of shopping as well as low prices and wide selections.

YEAR 2009

Anttila's net sales were €513 million in 2009, a decrease of 8.0%. Retail sales of Anttila department stores totalled €368 million in 2009, a decrease of 6.1%. Retail sales of Kodin Ykkönen department stores for interior decoration and home goods totalled €161.2 million, down by 10.7%. Sales of NetAnttila amounted to €97.3 million, a decrease of 14.3%, which can be attributed particularly to the drop in the Latvian market.

In 2009, a new Anttila department store was opened in the Skanssi shopping centre, Turku and a new Kodin Ykkönen department store in Lielähti, Tampere.

Sports trade – Intersport Finland

Intersport Finland's retail store chains are Intersport, Budget Sport and Kesport. Intersport Finland is responsible for the marketing, sourcing and logistics services, store network and retailer resources of the chains. There are 57 Intersport stores, five Budget Sport stores and 37 Kesport stores in Finland, of which 91 are owned by retailer entrepreneurs and eight by Intersport Finland.

Intersport is part of the international sports chain. The Intersport chain is the market leader in Finnish sports retailing. Intersport's strengths include the chain's high reliability and recognition among customers, wide and diversified selections, and its expert and service-minded staff.

Budget Sport is a sports store format, which is based on low prices and the cost-effective business concept. It offers

the sector's largest selections in outdoor activity-related product groups.

The Kesport stores are located in smaller rural centres and are the leading sports stores in their areas.

Kesko is a partner of Intersport International Corporation.

YEAR 2009

The net sales of Intersport Finland were €165 million in 2009, representing an increase of 4.3%. The combined retail sales of Intersport, Budget Sport and Kesport stores were €305.8 million, up by 5.7%.

In 2009, new Intersport stores were opened in Ylöjärvi and in the Skanssi shopping centre, Turku. A new Budget Sport outlet was opened in Oulu, and the Budget Sport online store was launched to complement the network.

Furniture trade – Indoor

Indoor is a furniture and interior decoration retailer, which runs Askö and Sotkä chains in Finland and the Baltic countries. There are a total of 83 stores in Finland, two in Latvia and seven in Estonia. In Finland, 56 of the stores are owned by Indoor, while 26 operate as a franchise.

Askö provides quality- and brand-conscious home decorators with an up-to-date and competitive product range combined with the best service in the sector, ease of purchasing and delivery accuracy.

Sotkä offers consumers who value low prices with a competitive range combined with high delivery accuracy and quick and easy shopping.



International recognition for Kenkäkesko and Andiamo

Kenkäkesko and Andiamo received international recognition and attention for The K.E.N.K.Ä 09 shoe design contest targeted for the young. They ranked fourth in the Retail/Direct Sales/Consumer category of the ECHO Awards, the direct marketing competition organised by DMA, and received the ECHO LEADER AWARD 2009.

YEAR 2009

Indoor's net sales totalled €155 million in 2009, down 12.4%. The combined retail sales of the Asko and Sotka chains in Finland were €190 million, a decrease of 5.9%.

In Finland, new Asko stores were opened in Lielahiti, Tampere and in Savonlinna. The Sotka stores in Mäntsälä and Valkeakoski were closed. In Riga, Latvia, the Asko and Sotka stores located in the Alfa shopping centre were closed.

Both of the chains implemented comprehensive training programmes developing sales and customer service skills of the whole staff. The chains' cost-efficiency was enhanced and the efficiency of logistics was improved by concentrating all warehousing and terminal operations to an external operator.

Home technology trade – Musta Pörssi

The Musta Pörssi and Konebox chains provide home technology products and services.

The Musta Pörssi chain of speciality stores offers its customers home technology products that make housework easier, enhance communications and provide entertainment. In addition, Musta Pörssi offers a comprehensive range of product-related services and customers can choose to have the home technology installed so that it's ready to use. The Musta Pörssi chain celebrated its 30th anniversary in 2009.

The chain consists of 53 stores specialising in home technology, of which 50 are owned by retailer entrepreneurs and three by Musta Pörssi Ltd.

On the home technology market, the Konebox.fi online store competes with quality products, their good availability and low prices, and round-the-clock opening. The prices are based on efficient logistics and warehousing combined with the online store's self-service.

YEAR 2009

The net sales of Musta Pörssi Ltd were €107 million, representing a decrease of 12.5%. The combined retail sales of the Musta Pörssi and Konebox stores were €154 million and, a decrease of 15% from the previous year.

Besides the decline in consumer demand, the decreasing sales can be attributed to the decrease in the average prices of consumer electronics and transferring company-owned stores under retailer ownership. In 2009, new Musta Pörssi stores were opened in Lielahiti, Tampere and in the Levi Centre, Kittilä. In addition, a new Konebox store was opened in Porttipuisto, Vantaa.

Shoe trade – Kenkäkesko

Kenkäkesko's retail store chains are K-kenkä and Andiamo.

K-kenkä is a shoe store for the whole family, offering its customers a wide selection of branded footwear and expert service.

Andiamo's main target group is trendy and fashion-conscious shoppers, for whom the store offers a fashionable selection of shoes that is constantly being updated.

The K-Group's speciality shoe outlets also include the Kenkäexpertti stores which operate in smaller towns.

There are 55 chain stores in all: 35 K-kenkä, 16 Andiamo and four combined Andiamo/K-kenkä stores. There are also 34 Kenkäexpertti stores, which operate outside the chains.

YEAR 2009

The net sales of Kenkäkesko were €24 million in 2009, a decrease of 7.9%. The sales of the Andiamo and K-kenkä stores declined by 3.0%, and the combined sales of all of the K-Group's speciality shoe stores amounted to €58.3 million.

In 2009, two new K-kenkä stores were opened, one in the Elo shopping centre, Ylöjärvi and one in the Skanssi shopping centre, Turku.

Market shares and competitors

Hypermarket and department store trade

K-citymarket, Anttila, Kodin Ykkönen and NetAnttila

Market share cannot be reliably calculated

Competitors: department stores, hypermarkets, speciality store chains and online stores

Sports trade

Intersport, Budget Sport and Kesport

Market share 34% (own estimate)

Competitors: Sportia, Top Sport, Stadium, department stores and hypermarkets, and other speciality sports stores

Furniture trade

Asko and Sotka

Market share in Finland about 17% (own estimate)

Competitors: furniture and interior decoration stores

Home technology trade

Musta Pörssi and Konebox

Market share 9% (own estimate)

Competitors: stores specialised in home technology, hypermarkets and online stores

Shoe trade

K-kenkä, Andiamo, Kenkäexpertti

Market share 10.5% (Association of Textile and Footwear Importers and Wholesalers and own estimate)

Competitors: other speciality stores, department stores, hypermarkets, sports stores and online stores

K-Group's home and speciality goods trade, retail and B2B sales

	Number		Sales (incl. VAT), € million	
	2009	2008	2009	2008
Anttila department stores	31	30	370	393
Kodin Ykkönen department stores for interior decoration and home goods*	10	9	161	181
Distance sales (mail order and NetAnttila)	1	1	86	93
K-citymarket, home and speciality goods	69	64	699	666
Asko	33	32	91	94
Sotka	50	52	99	109
Intersport	57	57	243	233
Budget Sport*	6	5	32	26
Kesport	37	38	31	31
Musta Pörssi	53	54	145	180
Konebox*	3	2	10	3
Shoe stores	89	94	58	62
Home and speciality goods stores, Finland	439	438	2,026	2,070
Anttila, Baltic countries	2	2	11	17
Indoor, Baltic countries	9	13	13	26
Home and speciality goods stores, Baltic countries	11	15	24	43
Home and speciality goods trade, total	450	453	2,050	2,113

* incl. online sales

Home and speciality goods segment's key figures, continuing operations

		2009	2008
Net sales	€ million	1,558	1,606
Operating profit	€ million	66.5	63.6
Operating profit excl. non-recurring items	€ million	29.5	31.2
Operating profit as % of net sales excl. non-recurring items	%	1.9	1.9
Investments	€ million	29.6	60.5
Return on capital employed* excl. non-recurring items	%	5.8	6.2
Personnel average		5,666	5,801

* cumulative average

Home and speciality goods segment's net sales, continuing operations

	€ million	change, %
K-citymarket, home and speciality goods	595	5.1
Anttila	513	-8.0
Intersport	165	4.3
Indoor	155	-12.4
Musta Pörssi	107	-12.5
Kenkäkesko	24	-7.9
Total	1,558	-3.0

Home and speciality goods segment's capital employed at 31 December, € million

	2009	2008
Non-current assets	304	345
Inventories	223	257
Short-term receivables	174	156
./. Non-interest-bearing debt	-260	-246
./. Provisions	-8	-7
Capital employed**	434	504

** capital employed at the end of month

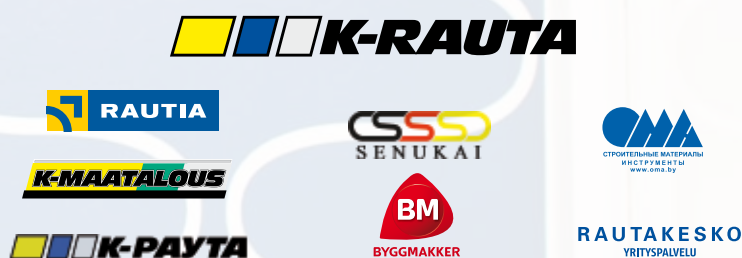


09

Building and home improvement trade

Rautakesko operates in the building and home improvement supplies trade in Finland, Sweden, Norway, the Baltic countries, Russia, and Belarus and the agricultural supplies trade in Finland. Rautakesko manages and develops its K-rauta, Rautia, K-maatalous, Bygghälsan, Senukai and OMA retail chains and B2B sales in its operating area. Rautakesko is responsible for the chains' concepts, marketing, sourcing and logistics services, store network, and retailer resources. There are 330 building and home improvement stores in eight countries and 90 agricultural stores in Finland.

Kesko's brands in the building and home improvement trade



Building and home improvement segment's net sales

€2,312 million

Building and home improvement segment's operating profit excluding non-recurring items

€11.9 million

Products and services for building, interior decoration and agriculture



The building and home improvement market

Rautakesko aims to be the leading service provider in the building and home improvement trade. Rautakesko's building and home improvement store chains K-rauta, Rautia, Bygghälsan, Senukai and OMA serve both consumer and professional customers. Consumer customers mainly comprise home, leisure home and yard builders, renovators and interior decorators. Important professional customers include construction companies, the manufacturing industry and public institutions.

In terms of its chains' retail sales, Rautakesko is one of the five largest companies in the European building and home improvement market. The principal European competitors operating in Rautakesko's market area are Castorama (Kingfisher Group), Leroy Merlin (Groupe Adeo), DT Group, Bauhaus, Hornbach and OBI. Rautakesko is a partner in tooMax-x, a purchasing alliance. Rautakesko's partnership in tooMax-x made it the third largest European sourcing channel for home building and interior decoration items.

The total retail market of this sector in Rautakesko's operating area amounts to some €28 billion. It is estimated that the overall market change in the 2009 building and home improvement trade in the Baltic countries was -30%, in Norway -10%, in Sweden -5%, in Finland -15%, and in Russia -25%. The main reason for the decrease in demand has been the

strong decline in the construction market, resulting from the recession.

Retail sales of Rautakesko's chains totalled €3,778 million (incl. VAT) in 2009, a decrease of 18.0% from the previous year.

In Finland, the retail market in the building and home improvement sector totals some €3.4 billion and declined by 14.8% in 2009 (Finnish Hardware Association, DIY). The K-Group's market share in this sector was some 38% (Finnish Hardware Association, DIY, own estimate).

In Finland, Rautakesko operates the K-rauta and Rautia retail chains and Rautakesko B2B Sales which serves construction companies, the manufacturing industry and other professional customers. Rautakesko also provides services at 33 customer contract stores operating outside the chains.

The K-rauta chain consists of 42 stores, with some 70% of sales going to consumers. The Rautia chain consists of 107 stores, 50 of which also operate as K-maatalous stores, engaged in the agricultural trade. The emphasis in the sales structure of Rautia is more on basic building products. All Finnish chain stores are run by retailer entrepreneurs.

The combined sales of the K-rauta and Rautia chains, Rautakesko B2B Sales and K-customer contract stores in Finland were €1,417 million (incl. VAT), a decrease of 15.5%. The principal competitors in Finland are Starkki, Terra, S-rauta and Agrimarket, and Bauhaus.



In Sweden, the building and home improvement market totals some €3.8 billion (SCB). In 2009, the market declined by about 5% (SCB).

At the end of 2009, Rautakesko had 19 K-rauta stores of its own and one retailer-owned store in Sweden. Retail sales of K-rauta stores in Sweden totalled €235 million (incl. VAT), a growth of 0.7%. Rautakesko's market share is about 6% (own estimate).

Private customers account for around 85% of K-rauta clientele. Principal competitors are Bauhaus, Bygghuset, DT Group, and local speciality stores.

In Norway, the building and home improvement market totals some €4.7 billion (TBF), down by about 10% in 2009 (TBF).

Bygghuset Norge AS, which is owned by Rautakesko, manages the Bygghuset chain of 113 building and home improvement stores, 15 of which are owned by Bygghuset. Other stores in the chain are owned by retailer entrepreneurs who have chain contracts with Bygghuset. Retail sales of the chain's stores totalled €963 million (incl. VAT) in 2009, a decrease of 13.8% from the previous year. Rautakesko's market share in Norway is about 17% (TBF). More than half of all sales are to professional customers. Rautakesko's competitors are Monter/Optimera (Saint Gobain), Maxbo and Coop.

In Estonia, the building and home improvement market totals some €0.4 billion (own estimate) and in 2009 the market decreased by 20% (own estimate).

Rautakesko has nine building and home improvement stores in Estonia. Their retail sales totalled €76 million (incl. VAT) in 2009, a decrease of 21.4%. Professional customers account for some 59% of all customers. Rautakesko's market share in Estonia is about 20% (own estimate). Rautakesko's competitors are Ehitus ABC (Saint Gobain), Bauhof and Espak.

In Latvia, the building and home improvement market totals approximately €0.4 billion (CSB), a decrease of 30–40% in 2009 (CSB). Rautakesko has nine K-rauta stores of its own in Latvia. Retail sales of K-rauta stores totalled €61 million (incl. VAT) in 2009, a decrease of 30.3%. It is estimated that Rautakesko's market share in Latvia is 16% (own estimate). Rautakesko's competitors are Depo DIY and Kursi.

In Lithuania, the building and home improvement market totals some €0.4 billion (own estimate) and it decreased by 40–50% in 2009 (own estimate). In Lithuania, Rautakesko has the majority shareholding in UAB Senukai prekybos centras, which is the market leader in the Lithuanian building and home improvement sector with a share of about 25%. The Senukai chain, which sells to both consumers and business customers, comprises 16 stores of its own, a logistics centre and 60 partner stores. Senukai's retail sales totalled €311 million (incl. VAT) in 2009, a decrease of 41.6%. Its competitors include local building supplies outlets and speciality stores.



Own brands continue to grow

The strong development of Rautakesko's own international brands continued. Cello, Prof, Fiorin and FXA offer a reliable and affordable solution for the building and renovation needs of both consumer and professional customers. Major launches in 2009 included Cello exterior paints and Cello storage systems.

In 2010 own brands will focus on improving the efficiency of selections and increasing international coverage. The web service of the Cello brand will be enhanced to make a channel which serves customers better.



Through its cooperation with tooMax-x, Rautakesko also participates in the charity work carried out by Eurogroup. In 2009, a school for over one thousand pupils, built as a cooperation project, was opened in Southern China. The Eurogroup organisation also provides training and consultation to various operators and carries out audits on factories in the Far East.

Rautakesko adopted a policy on ensuring origin and traceability of timber and wood products in October 2009. Rautakesko accepts the FSC and PEFC certification systems and is committed to the principles of responsible sourcing. Rautakesko's aim is to always ensure origin and traceability of the timber and wood products purchased and sold by the company.

In Russia, the building and home improvement market totals some €14 billion (own estimate), a decrease of about 25% in 2009 (Ros Business Consulting and own estimate). There are 10 K-rauta stores in Russia and their retail sales totalled €200 million (incl. VAT) in 2009, a decrease of 16%. Rautakesko's market share in Russia is about 2.0% (own estimate). Rautakesko's competitors are Leroy Merlin, OBI, Castorama, Maxidom and Metrica.

In Belarus, the building and home improvement market totals some €1.0 billion (own estimate). OMA, the company acquired by Senukai in Belarus in July 2007, has four stores. Their retail sales amounted to €62 million (incl. VAT) in 2009, representing a decrease of 26.6%. The market share of OMA is about 5% of the total market (own estimate).

Agricultural trade market

Kesko Agro Ltd's business operations were reorganised at the beginning of 2009. The K-maatalous chain and the agricultural trade (agricultural implements, inputs and supplies, and the seed and grain trade) were transferred to Rautakesko, while the tractor and combine harvester business and Kesko Agro subsidiaries in the Baltic countries were transferred to the car and machinery trade.

In Finland, 90 K-maatalous agricultural stores form the K-maatalous chain. 52 of the stores in the chain are combined Rautia K-maatalous or K-rauta K-maatalous stores. Major customer groups are agricultural entrepreneurs and contractors. K-maatalous provides agricultural entrepreneurs with solutions that help them efficiently produce the safe and pure foodstuffs that are valued by consumers.

In 2009, the net sales in the agricultural trade, which was transferred to Rautakesko, dropped by 32.6% in Finland. The reasons for this decline were the economic recession and a decrease in prices.

Strong chain concepts

Rautakesko's operations are based on strong chain concepts, efficient sourcing, and the best practices, which are dupli-

cated internationally. Rautakesko operates in the background of the chains, combining their category management, purchasing, logistics, information system control and network improvements. The synergy benefits and economies of scale achieved enable the company to offer products and services to customers at competitive prices.

K-rauta is Rautakesko's international concept. K-rauta operates in Finland, Sweden, Estonia, Latvia and Russia. The K-rauta concept focuses on wide selections, total solutions that make customers' lives easier and a good price-quality ratio. The concept combines the service, selections and business models for consumers, builders and professional customers. Overall, the K-rauta chain's competitive advantages include stores and attached builders' yards that are larger than those of its competitors.

Rautia is the largest building and home improvement store chain in Finland. Its selections are targeted at builders, renovators and building professionals in particular. Key competitive advantages include comprehensive customer service, knowledge of the local market and the cooperation network. Many Rautia stores also complement their range with agricultural items.

The **K-maatalous** chain's strengths in Finland include the K-maatalous retailers, who know the local customers and circumstances, and the wide product range combined with the comprehensive services and network. Active contacts and sales and the utilisation of data and information technology provide the basis for close cooperation between agricultural entrepreneurs and K-maatalous.

Byggmakker is the largest building and home improvement store chain in Norway. The chain's business model is retailer entrepreneurship. Special strengths include sales of building supplies and knowledge of professional customers. The Norwegian concept has undergone a reform with the introduction of large Byggmakker outlets of a new type providing full service.

The **Senukai** chain is the market leader in Lithuania. The chain incorporates the

Mega Store concept, which offers customers just about every product related to building and living at its stores of over 20,000 m².

Rautakesko B2B Sales operates in Finland. Its customers include nationwide construction companies, the manufacturing industry and other professional customers. Rautakesko B2B Sales' strengths include close cooperation with the network of Finnish K-rauta and Rautia stores through which a significant part of the deliveries are made.

Year 2009

Rautakesko's net sales totalled €2,312 million, representing a decrease of 22.4%. Net sales in Finland amounted to €1,041 million, down by 21.1%. The building and home improvement trade contributed €744 million, and the agricultural supplies trade €297 million to the net sales in Finland. The net sales of subsidiaries in other countries totalled €1,271 million; the decrease was 23.4%. Foreign subsidiaries accounted for 55.0% of Rautakesko's net sales.

Rautakesko's operating profit excluding non-recurring items was €11.9 million, down by €44.4 million. Rautakesko's investments totalled €84.7 million, with investments outside Finland accounting for 82.8%.

In 2009, two new K-rauta stores were opened in Sweden and one in Russia, Estonia and Latvia. In addition, the store site network was strengthened by other new and replacement stores. During the year, one K-rauta was closed down in Sweden and seven Byggmakker stores, five of which run by retailers, were closed down in Norway.

In 2009, Rautakesko continued to seek synergy and efficiency benefits in order to develop its international operations. Rautakesko made a cooperation agreement with tooMax-x Handels GmbH. The purchasing cooperation ensures an increasingly comprehensive and competitively-priced selection of products for customers.

Major focal areas of the year included centralised category management and supply chain management. The product lines are responsible for the centralised

formation of joint selections in all countries.

The construction of the international logistics network continued. A service agreement for central warehousing operations in Norway and Sweden was signed with Itella, Rautakesko's logistics partner.

The structure of the K-rauta concept's displays was revised. Customer visits and shopping are made easier by presenting different styles and price options clearly and together. The K-rauta chain is piloting the new design and service area business model at K-rauta Vantaanportti.

The service structure of the Rautia concept was clarified by increasing product and usage information to help customers.

The competence of Rautakesko staff was enhanced in 2009 with the help of a retail management training programme. The aim is to create a coherent strategic retail way of thinking and to ensure that best practices are shared.

Master Training for retail store staff in the SMS project (Store Management System) was started in Estonia, Latvia, Norway and Sweden.

Objectives and strategic focuses

Rautakesko's aims include exceeding the market growth in 2010.

The recession will continue to be clearly felt in the building and home improvement trade. Demand in the building repair and interior decoration business is expected to remain at a good level, and sales of yard and gardening items will clearly increase. Demand for various services, such as design, transportation and installation is anticipated to further increase as customers are pressed for time and want tailored solutions.

Customer purchasing behaviour and consumption habits are becoming more and more varied. The importance of energy efficiency, environmental values and responsibility in consumers' decision-making will increase. Besides traditional shopping in physical stores, the use of the internet as a channel providing information and shopping sites will be emphasised. New international service providers will enter the market and new business models will arise.



Safe and clean foodstuffs efficiently

The K-maatalous Experimental Farm in Hauho does pioneering research and development work for agriculture by testing plant varieties, fertilisation and protection. The cultivation programme of K-maatalous includes guidelines on the choice of seed, on fertilisation, on plant protection and liming.



Responsibility is part of the selected strategy

Rautakesko's chains aim to promote energy-efficient and healthy living. In the future, energy-efficiency, environmental values and responsibility will have a higher impact on both private and public decision-making.

The K-environmental store system was incorporated into the business concept in all Finnish chain stores. The focus of K-environmental stores, among other things, is on environmentally-friendly product selections and product labelling, on recycling and preventing the generation of waste at the stores, on store energy-use management and cleaning practices.

The Rautia chain's heat renovation truck presented economical heating systems and energy-efficient solutions for renovation and building, while also encouraging customers to reduce their household-related burden on the environment.

The K-rauta stores' nationwide campaign on energy-saving bulbs helped customers choose more energy-efficient and responsible lighting solutions.

Rautakesko participates in a project financed by Sitra, the Finnish Innovation Fund, and lead by Demos Helsinki, which supports people in their everyday energy choices.

The new K-rauta store concept focuses on interior decoration and gardening. Product groups and categories are presented in a centralised display area close to desks providing service and design assistance. More comprehensive product information and signage facilitate self-service.

In the Rautia chain, special emphases will include the 'home yard' concept and sales of houses.

In the agricultural trade, the aim is to develop the K-maatalous concept and improve market position to meet customer expectations. Objectives include the most active sales and the best total selection of products and services in the agricultural trade, including the K-maatalous cultivation programme.

The store network will be strengthened. In 2010, one new K-rauta will be opened in Finland, two new stores in

Russia and one in Belarus. A new K-rauta will also be opened in Sweden.

The Best Practise Retail Solution, Rautakesko's most important project that aims to achieve uniform business models, will continue. The project will harmonise the business models and retail information systems in the countries where Rautakesko operates.

Enhancement of electronic customer information will continue in 2010. The aim is to launch the chains' new websites, first in Finland and later in other countries.

International cooperation concerning product lines will intensify. Rautakesko's international logistics network with Itella Logistics will expand.

The target is that by the end of 2010 all purchases from the Far East will be made via tooMax-x sourcing cooperation.

Market shares and competitors

Building and home improvement trade

Finland, market share 38%

(Finnish Hardware Association, DIY, own estimate)

Competitors: Starkki, Terra, S-rauta, Agrimarket, Bauhaus

Sweden, market share 6%

(HUI, own estimate)

Competitors: Bauhaus, Bygghuset, DT Group and local speciality stores

Norway, market share 17% (TBF)

Competitors: Monter/Optimera (Saint Gobain), Maxbo and Coop

Estonia, market share 20%

(own estimate)

Competitors: Ehitus ABC (Saint Gobain), Bauhof and Espak

Latvia, market share 16% (own estimate)

Competitors: Depo DIY, Tapeks/Aile and Kursi

Lithuania, market share 25%

(own estimate)

Competitors: local building supplies and speciality stores

Russia, market share 2.0%

(ROS Business Consulting, own estimate)

Competitors: Leroy Merlin, OBI, Castorama, Maxidom, Metrica

Belarus, market share 5% (own estimate)

Agricultural trade

Finland, K-maatalous chain

Main competitor: Agrimarket chain

K-Group's building and home improvement trade, retail and B2B sales

	Number		Sales (incl. VAT) € million	
	2009	2008	2009	2008
K-rauta*	42	42	617	669
Rautia*	107	102	541	556
Rautakesko B2B Sales			197	279
K-maatalous*	90	91	448	629
K-customer contract stores	33	34	68	72
Finland, total	272	269	1,865	2,206
K-rauta, Sweden	20	19	235	233
Bygghuset, Norway	113	118	963	1,118
Building and home improvement stores, other Nordic countries total	133	137	1,198	1,351
K-rautakesko, Estonia	9	8	76	96
K-rauta, Latvia	9	8	61	87
Senukai, Lithuania	16	16	311	532
Building and home improvement stores, Baltic countries total	34	32	447	715
K-rauta, Russia	10	9	200	240
OMA, Belarus	4	3	62	84
Building and home improvement stores, other countries total	14	12	262	324
Building and home improvement trade, outside Finland total	181	181	1,907	2,391
Building and home improvement trade, total	453	450	3,778	4,597

* In 2009, 2 K-rauta stores and 50 Rautia stores also operated as K-maatalous stores

* In 2008, 2 K-rauta stores and 47 Rautia stores also operated as K-maatalous stores

Building and home improvement segment's key figures, continuing operations

	2009	2008
Net sales	€ million 2,312	2,978
Operating profit	€ million 19.6	19.4
Operating profit excl. non-recurring items	€ million 11.9	56.4
Operating profit as % of net sales excl. non-recurring items	% 0.5	1.9
Investments	€ million 84.7	122.7
Return on capital employed* excl. non-recurring items	% 1.8	9.0
Personnel average	8,789	10,400

* cumulative average

Building and home improvement segment's net sales, continuing operations

	€ million	change, %
Building and home improvement trade, Finland	1,041	-21.1
K-rauta AB, Sweden	187	0.6
Bygghuset, Norway	477	-16.4
Rautakesko, Estonia	63	-22.1
Rautakesko, Latvia	48	-32.9
Senukai (excl. OMA)	260	-42.1
OMA	53	-25.5
Stroymaster Group, Russia	169	-16.8
Total	2,312	-22.4

(..) change over 100%

Building and home improvement segment's capital employed at 31 December, € million

	2009	2008
Non-current assets	494	459
Inventories	196	273
Short-term receivables	222	220
./ Non-interest-bearing debt	-284	-299
./ Provisions	-4	-5
Capital employed**	624	649

** capital employed at the end of month





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Car and machinery trade

VV-Auto and Konekesko make up the car and machinery trade division.

VV-Auto imports and markets Volkswagen, Audi and Seat passenger cars, and Volkswagen commercial vehicles in Finland, and it also imports and markets Seat passenger cars in Estonia and Latvia. VV-Auto is also engaged in car retailing and provides after-sales services at its own outlets in the Greater Helsinki area and Turku.

Konekesko is a service company specialising in the import and sales of construction, environmental and agricultural machinery, trucks and buses, and recreational machinery. Konekesko operates in Finland, the Baltic countries and Russia.

Konekesko arranges the manufacture of and sells Yamarin boats in Finland and exports them to several European countries and Russia.

Kesko's most important brands in the car and machinery trade



Hyötyautot



Audi



SEAT

KONEKESKO

YAMAHA

YAMARIN



MUULI

CASE
CONSTRUCTION

Kubota

CLAAS

NEW HOLLAND
CONSTRUCTION

MANITOU



Car and machinery segment's
net sales

€947 million

Car and machinery segment's
operating profit excluding non-
recurring items

€0.3 million

Leading brands and comprehensive services



VV-Auto's market

In 2009, 90,574 passenger cars, 8,677 vans and 3,173 trucks were registered in Finland. The passenger car market decreased by 35.2% from the previous year. Registrations of new vans fell short of the previous year by 44.1% and those of trucks by 39.1%.

The market position of the brands imported by VV-Auto strengthened. Volkswagen increased its market share and was in second place in the registration statistics of both passenger cars and vans. Audi maintained its position as the number one premium brand. Seat's market share decreased slightly over the previous year. The car taxation that is based on carbon dioxide emissions increased the share of passenger cars with lower emissions and the popularity of TSI, TFSI and TDI motors which place less of a burden on the environment.

The Volkswagen range continued to expand. Launches included the revised Golf Plus, the new Polo and Golf Variant. The range of EcoFuel natural gas vehicles was complemented with the Passat Variant, Touran and Caddy Maxi. The revised Transporter range was introduced in late 2009. The Audi range was complemented with the new Audi A5 Sportback and Cabriolet. Seat arrivals of the year were the Seat Exeo and Exeo ST and the revised Altea, Altea XL, Leon and Ibiza SC.

In 2009, the market share of Volkswagen passenger cars in Finland was 12.6% and the Volkswagen Golf was the best-selling passenger car in the country. The

market share of Volkswagen vans was 20.9%. Audi had a market share of 4.7% and Seat's share was 1.0%. Seat's market share in Estonia was 1.0% and in Latvia 0.5%.

Konekesko's market in Finland, the Baltic countries and Russia

Konekesko's sales of recreational machinery are based on close and long-term cooperation with Yamaha Motor Co. Quality-minded customers are served by the comprehensive Yamaha dealer network. The Finnish market for recreational machinery totalled some €300 million in 2009.

In addition to farmers, Konekesko's most important customer groups in heavy machinery include construction, materials handling, transportation and service sector companies, and towns and municipalities.

Construction and environmental machinery is marketed in Finland, the Baltic countries and St. Petersburg through Konekesko's own dealer network. The construction market declined considerably in 2009, amounting to about €200 million in Finland, about €50 million in the Baltic countries and about €50 million in St. Petersburg, Russia.

Konekesko sells tractors, combines and their spare parts to farmers in Finland and the Baltic countries. In the latter, Konekesko also sells agricultural implements. The best-known product brands represented by Konekesko include Massey Ferguson tractors and Claas combines. The



market for agricultural machinery in Finland is some €400 million and in the Baltic countries some €200 million.

In Finland, Konekesko sells MAN trucks, and MAN and Neoplan buses through its own dealer network. The market for trucks (weight class of over 6 tons) is approximately €300 million. 146 MAN trucks and 14 buses were registered in 2009.

Strengths

At the beginning of 2009, VV-Auto and Konekesko were combined and reorganised to form the car and machinery trade division. The new division structure aims at synergy benefits and the development of sales and maintenance services.

VV-Auto and Konekesko represent the leading brands in their market area and are responsible for the marketing and sales of these brands. They also offer diversified after-sales services to their customers either through their own or a contract service network.

Strengths also include the wide product selection, high-quality products and services, a comprehensive network in several countries, efficient operating methods, skilled and service-oriented staff, and its own chain of retail outlets in the car trade.

Year 2009

In 2009, the net sales of the segment were €947 million, a decrease of 36.0%. The operating loss excluding non-recurring items was €0.3 million, €30.1 million less than in the previous year.

VV-Auto's net sales were €598 million, a decrease of 32.3% from the previous year. The net sales performance was affected by a decline in the car market, coupled with the car tax reform effective since April, as a result of which the car tax levied on cars after 1 April 2009 is excluded from the net sales. Taking the impact of the tax change into account, comparable net sales fell by 24.3%.

In terms of vehicle numbers, VV-Auto's own outlets in the Greater Helsinki area and Turku accounted for about one third of all new Volkswagen, Audi and Seat retail sales.

VV-Auto's retail sales network consists of 40 dealer shops selling Volkswagens and 59 service workshops, and 41 dealer shops and 58 service workshops for Volkswagen commercial vehicles. The corresponding figures for Audis are 17 and 39. Seats are sold by 23 dealers and maintained and repaired by 40 workshops in Finland and three in the Baltic countries.

A centralised customer relationship management system was adopted at all VV-Auto's own outlets. The construction of VV-Auto's new office building started in Veromies, Vantaa. The building will also include a new Audi outlet with a service workshop, maintenance and warehousing premises. The Volkswagen outlet and workshop located on the adjacent site will also be renovated and expanded during the process.

Konekesko's net sales were €350 million, down by 41.3% from the previous



BlueMotion

The Volkswagen cars with the best fuel economy in their size category can be identified by their BlueMotion badge. The Polo BlueMotion is the most economical five-seater in the world: combined consumption 3.3 l per 100 km and CO₂ emissions 87 g per km.



Yamaha in Finland

In 2009, Yamaha also became the market leader in motorcycles in Finland. Yamaha has been the leader in the Finnish outboard motor market since 1977.

year. This can be attributed to the decline in the machinery market and a decrease in the Baltic grain and agricultural inputs trade.

As the general economic situation deteriorated, the average sales of recreational machinery in Finland declined by about 30%. Sales of boats also dropped considerably from the previous year in the most important export markets (Norway, Sweden). Konekesko started importing and selling Linder boats in December 2009.

The Finnish and the Baltic market for construction and environmental machinery declined to less than half of the previous year, but Konekesko's market position strengthened. Konekesko returned to the warehousing technology business with Still forklifts and BITO storage systems and started the imports and sales of Dynapac compaction and paving machines in the Baltic countries.

The market for agricultural machinery dropped by about 30% in Finland and by some 50% in the Baltic countries.

Konekesko's market share of combines increased to 26.3%, but in the tractor trade the market share dropped to 14.0%.

In Finland, sales of MAN trucks declined more than the market, and the market share was 5.7%.

Objectives and strategic emphases

The segment's objectives for 2010 include increasing the market share of the brands it represents, further developing the dealer network and improving profitability. The focuses will be expanding the selection of products and services and improving electronic customer communications. The car trade will continue to focus on the development of its own chain of retail outlets and expanding the adoption of the centralised customer management system. In line with its strategy, Konekesko will also concentrate on the machinery trade and dispose of its grain and agricultural inputs trade in the Baltic countries.

Market shares

VW-Auto

Finland:

Volkswagen passenger cars 12.6%

Audi passenger cars 4.7%

Seat passenger cars 1.0%

Volkswagen vans 20.9%

(Transport Safety Agency TraFi, Vehicular and Driver Data Register)

Estonia:

Seat passenger cars 1.0%

Latvia:

Seat passenger cars 0.5%

(Estonian and Latvian car dealers associations)

Konekesko

Finland: market share 6–41%, depending on product group (own estimate)

Estonia: market share 20% (own estimate)

Lithuania: market share 20% (own estimate)

Latvia: market share 30% (own estimate)

K-Group's car and machinery trade, retail and B2B sales

	Number		Sales (incl. VAT) € million	
	2009	2008	2009	2008
VW-Auto, retail outlets	6	6	374	489
VW-Auto, imports	1	1	372	605
Konekesko, Finland	2	1	230	351
Finland, total	9	8	977	1,445
Konekesko, Estonia			38	69
Konekesko, Latvia			102	152
Konekesko, Lithuania			35	55
Konekesko, Baltic countries			175	276
Car and machinery trade, total	9	8	1,152	1,721

Car and machinery segment's key figures, continuing operations

		2009	2008
Net sales	€ million	947	1,480
Operating profit	€ million	-5.1	30.5
Operating profit excl. non-recurring items	€ million	0.3	30.4
Operating profit as % of net sales excl. non-recurring items	%	0.0	2.1
Investments	€ million	13.4	15.6
Return on capital employed* excl. non-recurring items	%	0.1	10.8
Personnel average		1,291	1,451

* cumulative average

Car and machinery segment's net sales, continuing operations

	€ million	change, %
VW-Auto Group	598	-32.3
Konekesko, Finland	185	-31.9
Konekesko, Baltic countries	165	-49.3
Total	947	-36.0

Car and machinery segment's capital employed at 31 December, € million

	2009	2008
Non-current assets	96	99
Inventories	157	255
Short-term receivables	67	89
./. Non-interest-bearing debt	-83	-127
./. Provisions	-15	-15
Capital employed**	222	302

** capital employed at the end of month

Real estate operations

A store site network is a strategic competitive factor for Kesko. It provides opportunities for developing business operations and increasing sales and customer satisfaction.

The Kesko's division parent companies are responsible for their own store sites throughout their life cycles. The companies plan their own retail networks and, on the basis of their network and business plans, make the investments in accordance with the Group's real estate strategy. The division parent companies develop their own store sites, manage their construction, and are responsible for maintaining, managing, leasing and selling them.

Real estate property management

For the management of Kesko's real estate assets and liabilities, the retail stores and other real estate properties are classified as follows:

- Strategic properties are large retail stores which involve important business interests related to the continuity of management, the flexibility of change and the financial value of the premises. In order to protect such interests, Kesko usually prefers to own these properties.
- Standard properties are premises owned by the Kesko Group. They can be sold and leased back for use in the Group's business operations.
- Realisation properties are those for which Kesko has no further use.
- Development properties are those needing further development for their intended use.

Investments

Kesko's real estate investments aim to enable the creation of trading services valued by customers by anticipating changes in customer behaviour and the operating environment and by maintaining the technical condition of properties.

Kesko invests only in properties needed in its own business operations. As a result of Kesko's internationalisation, investments outside Finland have become increasingly important.

Life-cycle affordable and eco-efficient real estate operations

Kesko's construction activity is based on life-cycle affordability and eco-efficiency. This means optimising the costs and environmental burden across the entire life cycle of a store site.

The aim is to build business premises with the lowest life-cycle costs in the trading sector.

Further development of the eco-efficiency of existing properties has focused on monitoring energy consumption and improving energy use. The aim is to reduce both consumption and costs.

Property maintenance

Property maintenance relies on systematisation and proactivity. Repair work is scheduled to coincide with the rebuilding necessitated by business operations.

The management and maintenance of properties owned or leased by Kesko has been outsourced to ISS Palvelut Oy, Ovenia Oy and YIT Kiinteistötekniikka Oy, which carry out the work in accordance with Kesko's requirements. Kestra Kiinteistöpalvelut Oy, owned by Kesko, is responsible for purchasing electricity for the K-Group.

Kesko's energy team monitors energy consumption of properties

The emissions generated in the production of electrical and heat energy for properties account for a significant share of the K-Group's environmental impact. Therefore the K-Group's environmental policy obliges Kesko's real estate operations, in cooperation with its business partners, to develop solutions related to the building, repairs, concept changes, maintenance and use of real estate properties that reduce the consumption of materials and energy during the life cycle of these properties.

The electricity, heat and water consumption of Kesko's properties has been monitored closely since 1995. The managers responsible for property care and maintenance report about deviations in consumption to the energy team of the real estate operations. Reasons for deviations are investigated and corrective actions are taken immediately. Close energy monitoring helps keep the technical systems of properties in order and maintain the value of properties.

Real estate operations indicators for 2009

Owned properties

Capital*, € million	2009	2008
Finland	656	776
Other Nordic countries	70	57
Baltic countries	32	41
Russia	112	77
Total	870	951

Area, m ²	2009	2008
Finland	629,000	756,000
Other Nordic countries	80,000	62,000
Baltic countries	103,000	103,000
Russia	46,000	34,000
Total	858,000	955,000

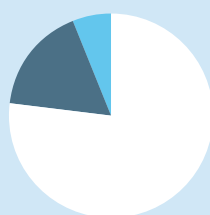
Leased properties

Lease liabilities, € million	2009	2008
Finland	2,036	1,767
Other Nordic countries	118	110
Baltic countries	171	183
Russia	32	45
Total	2,357	2,105

Area, m ²	2009	2008
Finland	2,358,000	2,191,000
Other Nordic countries	202,000	205,000
Baltic countries	429,000	431,000
Russia	25,000	25,000
Total	3,014,000	2,852,000

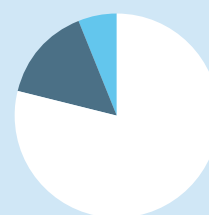
*Carrying amounts

Breakdown of owned properties 2009



- Strategic properties 77%
- Standard properties 17%
- Realisation properties 0%
- Development properties 6%

Breakdown of owned properties 2008



- Strategic properties 79%
- Standard properties 15%
- Realisation properties 0%
- Development properties 6%





Kesko and the K-stores offer motivating and rewarding jobs with products and services valued by customers. Kesko is a good and responsible working community where employees are treated equally and fairly.

At the end of 2009, the total number of Kesko personnel was 22,220 in eight different countries. Kesko's most international division is Rautakesko, with 95.6% of its 8,789 employees working outside Finland. In all, Kesko and its chains' retailer entrepreneurs employ some 45,000 people. Kesko's strengths include providing an opportunity for versatile internal job rotation and career development. During 2009, some 2,000 people moved to new jobs within the Kesko Group.

09

Human resources

Kesko personnel, average

19,184 employees

Personnel in Finland

10,284 employees

Personnel in other countries

8,900 employees

Total personnel of Kesko and
retailer entrepreneurs

some **45,000** employees



Kesko is a good place to work



Aiming to be the most attractive workplace in the trading sector

Commercial students are interested in Kesko and its chains as a workplace. In the Universum survey, those with an initial vocational education ranked Kesko 6th, just like in the previous year. In the 2009 Universum Young Professionals survey, Kesko was rated on top among one hundred companies, offering the widest variety of assignments. Kesko's overall ranking in the survey was 18.

Kesko carries out close cooperation with students and teachers in different sectors. For example, the job-orientation of Finnish teachers of commercial and technical subjects is promoted in trainings arranged by Kesko. Trainings will be revised in 2010.

The most competent and motivated people in the trading sector

Key competitive assets for Kesko's and its stores' operations and for improvement in work productivity include systematic development of staff competence.

Kesko's subsidiary K-instituutti acts as a centralised planning, implementation and purchasing organisation of the K-Group's training services. Its key duties include ensuring competence development in the K-Group with the best price-quality relation. The competence development solutions which support business activities are planned in cooperation with business units and implemented in cooperation with the selected and audited

network of training partners. The role of K-instituutti also includes the fast and efficient duplicating and sharing of the best practices within the K-Group.

In 2009, the Master Sales Assistant training had more than 17,000 participants in 12 different product lines. The aim is, above all, continuous enhancement of sales people's service attitude, sales skills and product knowledge in cooperation with suppliers. More than 100 business colleges and polytechnics also implemented the training, in which some 5,000 students participated.

Some 99% (the target is 100%) of the checkout personnel and their supervisors selling age-restricted products in K-food stores completed the proficiency test in 2009. The test includes questions about the sale of age-restricted products.

Management and leadership

At Kesko, management is conducted in a responsible manner and in compliance with the corporate values. Leadership and the working community that are motivating and encouraging are prerequisites for excellent performance and wellbeing at work.

The annual personnel survey plays a key role in measuring the operations of the working community, the quality of management and the internal employer profile. A similar survey is conducted throughout Kesko and its chain stores. In 2009, replies were received from 72.3% of the employees of the companies included in the survey. Active leverage of survey results in managerial work and the



efficient implementation of concrete development activities are of essential importance.

The personnel survey also looks into employees' experience of equality in terms of age, origin and gender. Equality was considered to be good in every area surveyed.

One of the key tools in efficient performance management and the motivating leadership of immediate superiors is the performance and development review whose implementation is included in the personnel survey. 72% of the employees have had a performance and development review during the past year, and rated their satisfaction with the review as 4.0 (on a scale of 1–5). Furthermore, the performance assessment of the entire Group's key personnel was further expanded in the companies.

Leadership skills and career progress are supported by Kesko's own three-step superior and management training. Since 2004, Kesko has implemented a long-term development programme for members of the management and potential management. There are some 200 participants in the programme, whose purpose is to ensure a sufficient supply of managerial resources both in terms of quality and quantity. In 2009, key employees participated in the training supporting the implementation of the work and productivity programme.

Common training is complemented by the chain's own training programmes. The building and home improvement sector's Master programme in international retail

management started in 2009 with the purpose of standardising the implementation of the sector's concepts in all the countries where the Group operates. In Anttila and Kodin Ykkönen department stores, 190 managers participated in store-specific HR training. The aim was to increase general competence in personnel and employment issues, while specifying and improving the efficiency of implementing HR processes at everyday level.

Towards the best labour productivity in the trading sector

The key objective of the ongoing work and productivity programme is to improve the employees' work productivity, for example by focusing on the competence and well-being of people and on better leadership. The programme focuses on the development of sales and customer service skills, projects that promote wellbeing at work, efficient management of working hours and adapting the number of personnel to the current market situation. The programme also involves measures related to increasing electronic communications. The work and productivity programme applies to all of Kesko and its chain stores.

As a result of the decline in consumer demand, measures aimed at adjusting the number and cost of staff were continued. During the year, the Group's staff cost decreased by 7.4%.

Labour productivity has also improved thanks to the adoption of different working hour models and the systematic management of working hours. For example,



The Volkswagen Retail Sales Excellence (RSE) is a sales management training programme for sales managers in Finland. The aim of the programme is to improve sales profitability with the help of tools supporting the training of sales people and the sales process. The RSE programme started in VW-Auto's own Volkswagen outlets in 2009 and will be expanded to cover all Volkswagen dealers in Finland.



The widest variety of job assignments at Kesko

In the 2009 Universum Young Professionals survey, Kesko was rated top among one hundred companies, offering the widest variety of assignments. Respondents comprised approximately 6,000 young business, engineering and IT professionals.

Michaela von Wendt, Universum's Country Manager for Finland says that Kesko has succeeded in communicating the variety of career alternatives and opportunities it offers to young professionals and students.

K-food stores carried out an extensive project, the aim of which was improving the planning of working hours, increasing the use of planning programmes and the electronic transfer of related information to the payroll accounting unit.

Long-term projects focusing on well-being at work will continue in companies. The introduction of the intervention model has further expanded during the year. The aim is to increase labour productivity by reducing sickness absences and raising the retirement age. A uniform sickness absence monitoring and reporting model was introduced at the beginning of 2009. All companies prepared a concrete action plan with the aim of reducing sickness absences.

In Finland, Kesko's Occupational Health Service Unit focuses on operations that maintain work capacity and promote the wellbeing of the working community. Currently 35–45% of the total costs of occupational health are allocated to these activities. In other countries, occupational health services have been arranged

according to the local practice and legislation. Support for personnel's recreational activities is provided through joint staff clubs and in the form of company-specific contribution.

Most of Kesko's employees belong to a bonus incentive system. The management's incentive systems are described on pages 59–60.

Kesko's internal communications became more efficient with the introduction of the new intranet in all operating countries in 2009.

Information about HR affairs will also be available in the Corporate Responsibility Report for 2009.

Competitive advantage from chain operations and K-retailer enterprise

The K-Group's principal business model in Finland is the chain business model, in which independent K-retailers run retail stores in the chains managed by Kesko. At the end of 2009, Kesko had 1,302 K-retailer entrepreneurs as partners, as well as about 250 other retailer partners.

Cooperation between K-retailers and Kesko – chain operations – is based on equality, openness and willingness to develop joint operations. The objective of chain operations is improving competitiveness and customer satisfaction combined with achieving higher, uniform quality and lowering costs.

The obligations and rights of K-retailers and Kesko have been specified in the chain agreement.

Competitive edge is gained by combining systematic chain operations and the K-retailer operations based on entrepreneurship. Kesko is responsible for the constant development of the business model and the store concepts, for chain operations management and for sourcing and purchasing of the products included in the chain selections. The K-retailer entrepreneur is responsible for his or her store's customer satisfaction, personnel and profitability of business.

To ensure success, it is important that a new retailer's professional and other skills are at as high level as possible at the start of his/her career. About 200 stores are affected by retailer changes annually in the K-Group. The annual need for new entrepreneurs, ready to start their K-retailer careers, is approximately 100. The K-Group systematically trains new retailers to ensure a sufficient supply of people with the appropriate professional skills. New candidates interested in a

K-retailer career are sought through different channels. There are about 500 contacts annually. The requirement for new retailers is estimated for 1–3 years ahead.

The K-retailer trainee programme offers three alternative paths: a comprehensive programme, an intensive programme and the retailer entrepreneur path in polytechnics. Approximately 50% of those starting the programme have a fair amount of retailing experience, but in recent years the number of students transferring from other fields or having just finished their general education has grown. Before selection to the K-retailer trainee programme, the applicants are evaluated with regard to their development potential, values, work experience and education. After selection, would-be K-retailers start the K-retailer trainee programme, which consists of three parts: practical training in a retail store under the guidance of a mentor, theoretical training at the K-instituutti training centre or in the online learning environment, and regional K-trainee seminars.

Approximately 100 K-retailer trainees complete the programme every year. After completion, the trainees are ready to start as independent K-retailer entrepreneurs.

The K-Group gives its retailers strong background support and opportunities for further training and progress in their careers.

Path to K-retailer career

Need

- About 50–100 novice retailers every year

Marketing

Screening

- K-stores and Kesko
- Manufacturing industry
- Competitors
- Entrepreneurs of various sectors
- Educational institutes
- Others

Assessment

- Attitude
- Values
- Experience / development needs
- Suitability assessment

Selection

- Key areas of self-development
- Planning of a personal training programme
- Apprenticeship contract assessment

K-retailer trainee programme

- Required theoretical training at K-instituutti (food retailer training) or in online learning environment
- On-the-job retailer work training under mentor retailer
- Regional training (theme days)

Further qualification in entrepreneurship

K-retailer reserve

- (personality, knowledge, skills)

K-retailer career



Principles and indicators of responsibility support the management

Corporate responsibility in Kesko is included in the Group's normal management, complementing the management system with policies and principles guiding responsibility, with operating guidelines and indicators complying with the Global Reporting Initiative (GRI) recommendation. Corporate responsibility work includes good corporate governance, cooperation with stakeholders, risk management, economic, social and environmental responsibility, and all activities on behalf of product safety and consumer protection.

The corporate responsibility policies and principles approved by Kesko's Board of Directors or the Corporate Management Board and related international commitments have been published at www.kesko.fi/responsibility.

Kesko's responsibility programme in 2008–2012

Our responsibility programme sets concrete targets for:

- combating climate change
- reducing wastage
- transportation
- responsible purchasing
- employee wellbeing.

09

Responsibility



Responsibility



The Pirkka Organic range keeps growing

The Pirkka Organic range now comprises about 40 products, some of which are sold during a certain season only. The most popular Pirkka Organic products are tomatoes, carrots and eggs. New products are constantly and actively

sought for the Pirkka Organic range. The most recent arrivals include Pirkka Fairtrade Organic cocoa powder and Pirkka Fairtrade Organic chocolates. These products combine Fairtrade certification and organic production.

Responsibility is day-to-day work

The plans and actions relating to corporate responsibility are included in the different phases of Kesko's management system like other activities. The general principles of corporate responsibility provide management guidelines, while more detailed operating practices and goals have been defined in the policies and principles relating to different areas of operations. The guide 'Our Responsible Working Principles' and a supporting online training programme have been prepared for training the whole personnel – including K-store people.

The corporate responsibility team that operates within the Corporate Communications and Responsibility Unit develops and coordinates responsibility actions implemented in the line organisation, and reports on the results. The team's work is supported by a Corporate Responsibility Advisory Board, which has been appointed by the Corporate Management Board. The Advisory Board consists of members representing the management of Kesko's various division parent companies. Its duties include determining the responsibility strategy and the operating policies and models needed for its implementation, and monitoring the results. In 2009, the Corporate Responsibility Advisory Board focused on preparing a responsibility communications plan, with the aim of starting planned communications, including the revising of the responsibility section of kesko.fi pages in 2010.

The Environmental Steering Group is responsible for developing and coordinating environmental issues in different divisions and countries. Its focuses included the actions needed to meet the collection requirements of the EU's Battery Directive and the progress of the implementation of REACH, the EU regulation on chemicals.

A steering group consisting of representatives from the purchasing management of division parent companies coordinates responsible purchasing. In 2009, the group addressed, for example, risk classification and monitoring of suppliers, and the introduction of the database of suppliers in high-risk countries.

Kesko among the best in the world in sustainability indexes

For the seventh time, Kesko was included in the Dow Jones sustainability indexes, DJSI World and DJSI STOXX. In the 2009 assessment, Kesko ranked the best in the sector in innovations management, risk management, supplier controls, environmental reporting, eco-efficiency of operations, and anti-corruption and anti-bribery measures taken.

Based on the assessment made by the EIRIS research institute, Kesko was included in the FTSE4Good Global and FTSE4Good Europe indexes focusing on responsible investment in March 2009. The assessment by EIRIS consists of the following areas: environmental sustainability, fostering human rights, countering bribery, supply chain labour standards and curbing climate change. The FTSE is a company owned jointly by the Financial Times and the London Stock Exchange.

Kesko's listings in the ASPI Eurozone®, Ethibel Pioneer & Excellence and Kempen/SNS Smaller Europe SRI indexes were also repeated in 2009.

Every January since 2005, World Economic Forum has published the 'The Global 100 Most Sustainable Corporations in the World' list. Kesko has been included every year – on the 2010 list Kesko's ranking was 33rd.

As in 2009, Kesko qualified in the 2010 Sustainability Yearbook, published by the SAM Group which draws up the DJSI index, for the Silver Class in the Food & Drug Retailers sector. No companies qualified in the Gold Class in this sector. Kesko was also recognised as the "Sector Mover", a qualification given to the company that has achieved the greatest proportional increase in its sustainability performance.

Kesko's rankings in different indexes are on display at www.kesko.fi/responsibility.

Economic responsibility

Economic responsibility is reflected in good management of finances, efficient use of resources, and the stable and long-term generation of economic benefit to different stakeholders. Good financial performance is sought with responsible methods – supported by good corporate governance, open communications and

effective stakeholder interaction while taking environmental and social responsibility into account. In the Corporate Responsibility Report, Kesko specifies the economic benefit generated by it from the perspective of different stakeholders, market areas and communities.

MAJOR PART TO THE MANUFACTURING INDUSTRY

Most of the economic benefit generated by Kesko – nearly 83% of Kesko's net sales – goes to suppliers of goods from which total purchases were €7.0 billion in 2009. Finnish suppliers accounted for 70% of all. In 2009, Kesko had approximately 29,500 active suppliers of goods and services (Kesko's annual purchases exceeding €1,000), of which 16,300 operated in Finland. Kesko's investments in Finland totalled €128 million and in other countries €70 million.

COMPREHENSIVE STORE NETWORK FOR CUSTOMERS

Together with the K-retailers, Kesko is responsible for a nationwide store network in Finland. Its services are complemented by a mail order business and e-commerce.

At the end of 2009, there were 1,030 K-food stores i.e. 25 fewer than the year before. The store network covered 311 of Finland's 348 cities and municipalities. 51% of Finnish households lived within one kilometre of the nearest K-food store. 97 new K-retailers started during the year.

The total number of other K-Group stores in Finland was 720. Store numbers are specified in the tables of each division on pages 14–39.

There were 133 building and home improvement stores in other Nordic countries. There were 34 building and home improvement stores and nine furniture stores in the Baltic countries. There were 10 building and home improvement stores in Russia and four in Belarus.

Sales to the K-retailers accounted for 51% of Kesko's total sales. Kesko's own retail stores accounted for 27% of the company's total sales.

SUPPORT FOR THE PUBLIC GOOD

In 2009, Kesko and its subsidiaries gave financial support amounting to approxi-

mately €2 million to some 150 organisations and institutions operating for the public good.

Support is primarily directed to areas associated with wellbeing of families with children. In 2009, funds were above all directed to support the work for the mental health of the young. Kesko's cooperation with the Young Finland Association to promote physical exercise of children and the young and a healthy way of life has continued for over a decade. Scholarships were granted to talented young athletes, art students and polytechnic students for the 22nd time. Through the UNICEF, Kesko also donated funds to the education of children in Vietnam.

The Happy Christmas Spirit collection organised jointly for the 13th time by the Mannerheim League for Child Welfare, the Finnish Red Cross, the Finnish Broadcasting Company's YLE Radio Suomi and Morning TV, and Kesko for the benefit of low-income Finnish families with children raised €950,000, which was a new record. K-food stores' and Chiquita's 'Give Children a Life' campaign raised €160,000 for purchasing intensive care equipment for premature babies in the university hospitals in Helsinki, Turku, Tampere, Kuopio and Oulu. Procter&Gamble's and K-food stores' Pampers campaign raised funds for UNICEF to provide vaccine for the protection of newborn babies against tetanus. K-retailers complemented the campaign by donating funds for nearly 600,000 further inoculations.

Environmental responsibility

The Kesko Group's certified ISO 14001 environmental management system covers all major environmental impacts of operations. During the year, the certification of Kesko's transportation and warehouse operations was revised and Anttila Oy included their new department store in Rovaniemi and the Anttila Store in Nummela in the system. Business partners providing property construction, maintenance and waste management services for Kesko have similar systems. VV-Autotalot Oy and Turun VV-Auto Oy comply with the action plan of the Finnish Central Organisation for Motor Trades and Repairs and the quality requirements of the Volkswagen Group.



WE SUPPORT



In its reporting, Kesko follows the recommendation for reporting on sustainable development drawn up by the Global Reporting Initiative (GRI) and is an Organisational Stakeholder of the GRI. Kesko's Board of Directors discusses the Corporate Responsibility Report annually after it has been published. Since 2002, reporting has been assured by an independent party. The report for 2009 will be published in May 2010 and PricewaterhouseCoopers Oy will be responsible for its assurance.

Kesko is committed to the Global Compact challenge launched by the UN Secretary General. In June 2009, the Global Compact Office thanked Kesko for excellent responsibility reporting and presented Kesko's report on its web pages, classified as Notable.



Carrotmob challenged K-markets to save energy

The Carrotmob consumer movement arranged events at K-market Kotikontu in Helsinki and at K-market Tullintori in Tampere in October 2009. Carrotmob offers ordinary consumers a concrete way to combat climate change. The target of the events was to challenge food stores to save energy. "Every euro generated from extra sales will be invested in improving the energy efficiency of the store," the retailers promise.

K-food stores have long focused on energy efficiency. All new island freezers purchased for K-food stores have been fitted with lids since the beginning of 2008.

K-stores' environmental management is based on the requirements of the K-environmental store diploma. Bureau Veritas Quality International (BVQI) audits the fulfilment of these requirements. At the end of the year, 457 K-food stores had the diploma. All K-citymarkets and K-supermarkets fulfil the requirements in accordance with their chain concept, as do 138 K-rauta and Rautia stores, and 29 K-maatalous agricultural stores.

ENERGY AND EMISSIONS

The combined electricity consumption of Kesko and the K-stores operating in Kesko's premises in Finland was 766 GWh. Electricity consumption increased by 2.0% while the total area of real estate increased by 2.6%. The consumption of heat energy totalled 329 GWh (288 GWh in 2008). In all real estate, the specific consumption of electric energy decreased by 0.6%, whereas the specific consumption of heat energy increased by 11.1% due to the cold weather.

Kesko used centralised purchasing to buy 75% of the electricity used. All electricity bought was carbon-free, produced with nuclear power and renewable energy sources. The carbon dioxide emissions of electricity used by the whole K-Group have decreased by 93% since 2001.

A total of 12.0 million kilometres was driven in distance and trunk transportation, 17.0 million kilometres were driven in distribution transportation, and 9.9 million kilometres were driven in outsourced transportation. Transportation caused approximately 46,025 tons of carbon dioxide emissions in Finland, or about 0.0252 kilos per each kilo transported. Proportional CO₂ emissions increased by 3.7% from the previous year.

Emissions of electricity and heat energy purchased in Finland and the energy and emissions statistics of foreign subsidiaries will be presented in the Corporate Responsibility Report.

WASTE MANAGEMENT AND RECYCLING

Waste recovery rate dropped slightly from the previous year. In Kesko Food's warehouse operations, the total amount of waste was 6,539 tons and the waste recovery rate was 86%. 74 million cans and 28 million recyclable plastic bottles were collected in return logistics. The total

waste amount of the Anttila distribution centres was 651 tons (740 tons) and the recovery rate was 97% (96%). Recovery rates of department stores varied between 68% and 100% depending on regional recycling possibilities.

In the autumn, Intersport organised a recycling campaign with the Finnish Red Cross and Halti. The stores received more than 2,200 old outdoor coats and jackets brought by customers. In all, 64 bales of inspected coats and jackets were transported to Kyrgyzstan, Mongolia and Tadjikistan, which suffer from the cold and poverty.

Social responsibility

Kesko's social responsibility can be divided into direct social responsibility for its own personnel, and indirect social responsibility for personnel helping to produce the merchandise sold by Kesko.

The core areas of social responsibility for own personnel are a good working community, equality, competence development, and health and safety. An annual personnel survey with the same content that is conducted throughout Kesko and its chain stores provides information about the strengths and development needs of working communities.

The work and productivity programme that had started in 2008 continued in 2009. The programme has promoted the adoption of different working hour systems, the systematic management of working hours and specified the monitoring absences due to illness. Other core areas have included competence, wellbeing and leadership development as well as occupational health care services, which in Finland focus on operations that maintain work capacity and promote the wellbeing of work community.

For more information about HR issues, see pages 44–46 and the Corporate Responsibility Report.

Responsible purchasing

Kesko's own two-member monitoring team that was established in Shanghai in October 2008 made 161 factory visits to the premises of 50 suppliers in China in 2009. The suppliers and the factories they use first fill in Kesko's self-assessment form, which complies with the practices of the BSCI audit. The monitoring officers

compare the responsibility practices of factories on site with Kesko's requirements, decide on any required corrective actions and give support to factories implementing these corrective actions. Compliance with chemical regulations defined by Kesko is also verified during these visits.

The goal of monitoring is always an independent audit, carried out according to either the BSCI audit model or the SA8000 standard. The objective of Kesko, such as all BSCI members, is to do business in the so-called high-risk countries only with suppliers who have passed the audit. At the end of 2009, audits had been carried out in 107 of the factories of Kesko's high-risk suppliers, compared with 32 the year before. More than 40 Kesko's suppliers participated in the training events arranged by the BSCI in China, Vietnam, Bangladesh and Turkey.

Suppliers' audit information is collected in the database developed by Kesko for this purpose. In addition to BSCI audited suppliers, Kesko had 30 suppliers with SA8000 certification and 112 suppliers of Fairtrade products. In all, Kesko has participated in ensuring decent working conditions and terms for workers of some 250 companies in developing countries.

Responsibility in the product trade

Kesko's division parent companies have several sustainable sourcing policies concerning the origins and production conditions which affect the creation of selections and promote the sales of the products in question.

The selection and marketing policies concerning organic and Fairtrade products and products with environmental labelling are included in the K-food stores' chain concepts. Kesko's statement on fish and shellfish purchases relies on the guidelines of the WWF for products from nearby areas and on the guidelines of the Marine Conservation Society for products from further away.

In the development of Pirkka products, the focus is on promoting a healthy way of life, like in other marketing. The K-city-market chain has launched to the market clothing collections that are based on the Global Organic Textile Standard or made of recycled plastic material.

Rautakesko offers a wide selection of products with environmental, energy or emission category labelling. The proportion of certified timber out of total timber sales exceeded 90%. Garden furniture sold by all K-Group stores is either FSC-certified or made of sustainably cultivated tropical wood species.

Product safety

Kesko Food's Pirkka Product Research is responsible for ensuring the quality of purchases, keeping abreast of food legislation, maintaining and providing support for the self-control plans required by law and for developing own brand products together with the purchasing and marketing units.

Quality control is carried out by auditing the operations of product manufacturers and analysing product composition and quality. In 2008, the Pirkka Product Research Unit's laboratory became the first laboratory representing the Finnish trading sector with the ISO 17025 accreditation.

In 2009, the Product Research audited 41 suppliers, of which nine were Finnish. Most of them were manufacturers of Kesko's own brand products. A total of 5,702 food novelties and product development samples were analysed, while the total number of batch control and other self-control samples was 1,393.

The Product Research Unit also plays a key role in exceptional situations, when a product launched on the market deviates from quality or safety requirements. During the year, there were 61 product recalls (66 in the previous year), most of which related to defective quality or taste, or to a defect in manufacturing or packaging. 21 of the recall cases were Kesko's own brands; in other cases the Product Research Unit assisted manufacturing industry. Three of the recall cases were public recalls, involving potential health hazards.

During the year, the recipe service of the K-test kitchen, which changed its name to the Pirkka test kitchen to celebrate its 50th anniversary, produced 620 recipes for both the K-Group units and directly for consumers. Kesko Food's Consumer Service answers consumer inquiries and receives feedback. In 2009, there were 20,999 such contacts.



New signs at K-food stores illuminated with LEDs

LED lighting technology is replacing neon and fluorescent tubes in signage at K-food stores. The benefits of LED lighting include the following:

- *Energy consumption is 60–80% lower*
- *Reduced need for maintenance work for illuminated advertising and, as a consequence, less travel*
- *Life-spans of LED lights are over 10 years*
- *Over time, LED lights dim considerably less than neon and fluorescent tubes*
- *Advertising with LED lighting contains no hazardous waste.*

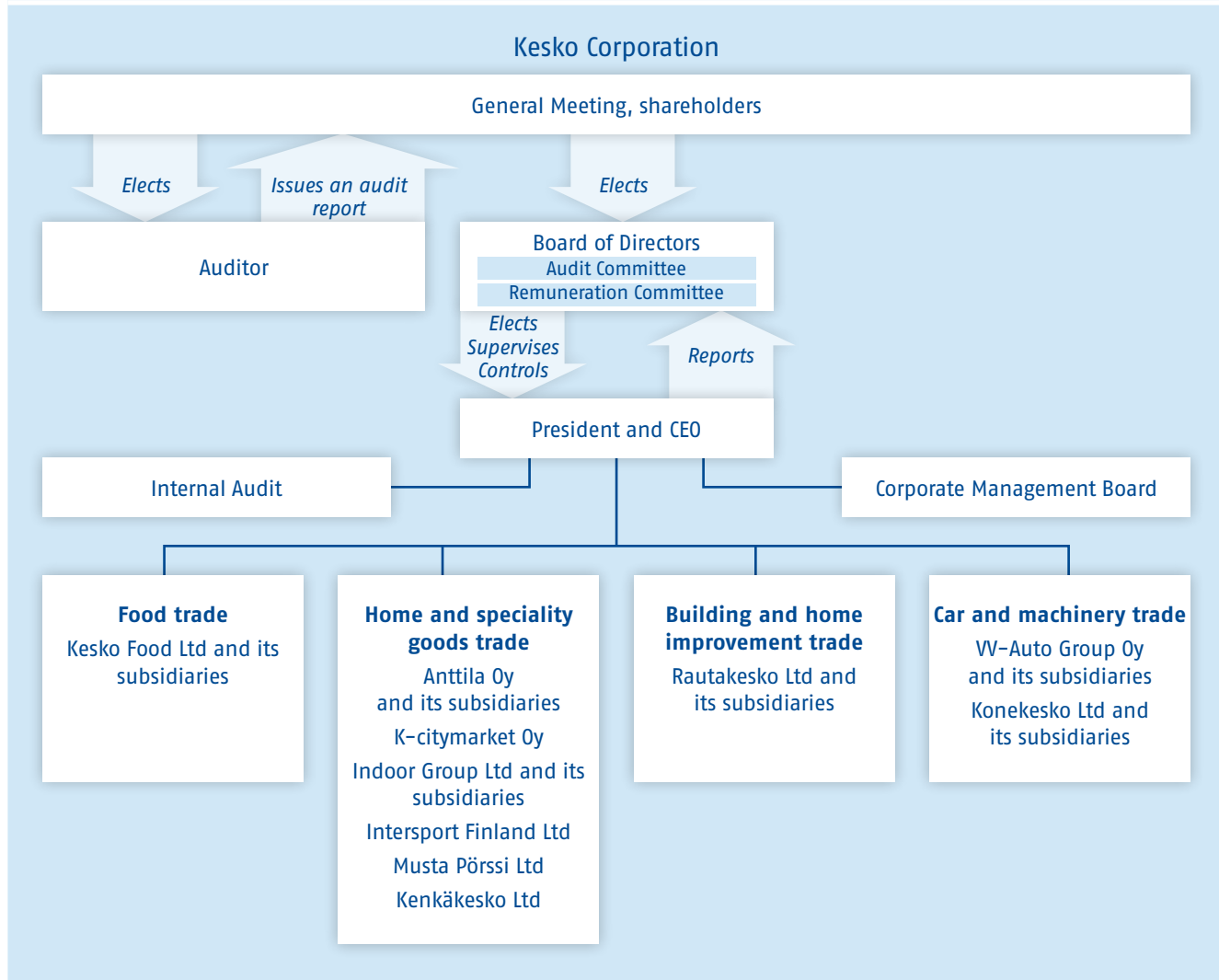
A monitoring team controls the responsibility of Chinese suppliers

Kesko's monitoring team in Shanghai, China guides, trains and monitors Chinese suppliers of Kesko's division parent companies. Monitoring officers Angel Yang and Buick Bie help suppliers correct any deficiencies found. Monitoring also helps suppliers develop their operations and apply for a BSCI audit or SA8000 certification.

Monitoring in China started in October 2008. The monitoring team made 161 factory visits to the premises of 50 suppliers in 2009.

Kesko's Corporate Governance

Kesko Group's Corporate Governance structure



The rules and the Corporate Governance Code observed by Kesko

Kesko Corporation (Kesko or the company) is a Finnish public limited company in which the duties and responsibilities of the executive bodies are defined according to the Finnish law. The international Kesko Group comprises the parent company, Kesko, and its subsidiaries. The company is domiciled in Helsinki.

The highest decision-making power in Kesko is exercised by the company's shareholders at a General Meeting. The company's shareholders elect the company's Board of Directors and auditor at a General Meeting. The Kesko Group is managed by the Board of Directors and a Managing Director, who is the President and CEO. The company uses a single-tier governance model.

Kesko's decision-making and administration comply with the Finnish Limited Liability Companies Act, other regulations concerning publicly traded companies, Kesko Corporation's Articles of Association, and the rules and guidelines of NASDAQ OMX Helsinki Ltd. In addition, the company complies with the Finnish Corpo-

rate Governance Code for listed companies ("Corporate Governance Code"). The Corporate Governance Code is available in full at www.cgfinland.fi. As provided by the Comply or Explain principle of the Corporate Governance Code, the company departs from the Corporate Governance Code's recommendation concerning the terms of office of Board members as specified hereafter.

DEPARTURE FROM CORPORATE GOVERNANCE CODE RECOMMENDATION

The terms of the members of Kesko's Board of Directors depart from the term of one year given in Recommendation 10 of the Corporate Governance Code. The term of the company's Board is defined in the company's Articles of Association. The General Meeting makes decisions on amendments to the Articles of Association. According to the company's Articles of Association, the term of office of each Board member is three (3) years with the term starting at the close of the General Meeting electing the

member and expiring at the close of the third (3rd) Annual General Meeting after the election.

A shareholder which, together with controlled companies, holds over 10% of all voting rights attached to Kesko's shares, has informed the company's Board of Directors that it considers the term of three (3) years good for the company's long-term development and sees no need to shorten the term of office set in the Articles of Association.

CORPORATE GOVERNANCE STATEMENT

A separate Kesko's Corporate Governance Statement referred to in the Corporate Governance Code and inspected by the Audit Committee of Kesko's Board of Directors at its meeting on 4 February 2010 is available at www.kesko.fi.

General meetings

The Annual General Meeting, which is held on a date before the end of every June as designated by the company's Board of Directors, handles the business specified for the Annual General Meeting in the company's Articles of Association and any other proposals that may be made to the Meeting. Kesko's Annual General Meeting has usually been held in March or April. If needed, the company may also hold an Extraordinary General Meeting.

All General Meetings are convened by the company's Board of Directors. An Extraordinary General Meeting must also be convened if shareholders with at least 10% of the shares so demand in writing in order to deal with a given matter. As a rule, General Meetings handle the matters placed on the agenda by the company's Board of Directors.

Individual shareholders have the right, prescribed in the Limited Liability Companies Act, to place those matters that fall within the competence of a General Meeting, on the General Meeting agenda, provided they make a written request to the Board of Directors in time for the matter to be included in the notice of the meeting. Shareholders must send such requests, together with a written account of the reasons behind the requests or the proposed resolutions to the Kesko Group's Legal Affairs, Kesko Corporation, FI-00016 KESKO or by e-mail to cg@kesko.fi.

MAJOR MATTERS TO BE DECIDED BY A GENERAL MEETING

The major matters to be decided by a General Meeting include:

- decisions on the number of Board members
- the election of Board members
- decisions on the remuneration and financial benefits of the members of the Board of Directors and Board Committees
- the election of the auditor and decisions on the auditor's fee
- the adoption of the financial statements
- decisions on discharging the Board and the Managing Director from liability
- amendments to the Articles of Association
- decisions on increases in the share capital
- decisions on the distribution of the company's earnings, such as profit distribution.

CONVENING A GENERAL MEETING

Shareholders are invited to a General Meeting by a notice published in at least two nationwide newspapers, specifying e.g.

- the time and place of the meeting
- the proposed agenda of the General Meeting
- the proposals for the number and appointment of Board members and biographical information on the candidates
- the proposal prepared by the Audit Committee for the appointment of the auditor
- other proposals to the General Meeting
- matters placed on the General Meeting agenda for which no resolutions are proposed
- a description of the procedures that shareholders must comply with in order to participate in and cast votes at the General Meeting
- the 'record date' that defines the right to participate in and cast votes at the General Meeting
- the place where the General Meeting documents and proposed resolutions are available
- the address of the company website
- the total number of shares and voting rights by share class on the date of the notice.

The notice is delivered no earlier than two (2) months and no later than twenty-one (21) days before the record date of the General Meeting. The notice and the proposals of the company's Board to the General Meeting are published in a stock exchange release. Proposals for the number, and proposed nominations and fees of Board members made by shareholders who hold at least 10% of the votes carried by the company shares are also published in a stock exchange release.

The notice of the General Meeting and the following information is made available to shareholders on the company website at least 21 days before the General Meeting:

- the documents to be submitted to the General Meeting
- the resolutions proposed by the Board or another competent body.

RIGHT TO PARTICIPATE IN A GENERAL MEETING

Shareholders have the right to participate in a General Meeting if they are registered as shareholders in the company's register of shareholders kept by the Finnish Central Securities Depository Ltd at the record date separately given by the company. Those wishing to attend a General Meeting must notify their intention in advance by the date announced in the notice of the General Meeting, which date must not be earlier than ten (10) days before the meeting. Shareholders may attend the meeting themselves or through an authorised representative. The representative shall produce a proxy document or otherwise provide reliable evidence of the right to represent the shareholder. Each shareholder or representative may have one assistant at the meeting.

MINUTES OF THE MEETING

The minutes of a General Meeting, together with voting results and appendixes relating to decisions made, can be read by shareholders on the company's website within two (2) weeks of the meeting. Appendixes to decisions made by a General Meeting are available on the company website only insofar they describe the actual content of the decision. General Meeting decisions are also published in a stock exchange release immediately after the meeting.

PRESENCE OF GOVERNING BODIES AT A GENERAL MEETING

Kesko's aim is that all members of the company's Board of Directors and the auditor are present at Annual General Meetings. Extraordinary General Meeting are attended by the Chair of the company's Board of Directors, a sufficient number of Board members and the President and CEO. First-time candidates for the Board of Directors are present at the General Meeting that elects them, unless there is a weighty reason for their absence.

Share series

The company has two share series, A and B shares, which differ only with respect to the votes to which they give entitlement. Each A share entitles its holder to ten (10) votes and each B share to one (1) vote at a General Meeting. When votes are taken, the proposal supported by more than half of the votes will normally be the decision of the General Meeting, as prescribed by the Limited Liability Companies Act. However, the Act specifies several matters, such as amendments to the Articles of Association and decisions on directed share issues, where a legally binding decision requires a higher qualified majority in relation to the number of shares and the votes to which they give entitlement.

Kesko's Articles of Association do not include any redemption clauses or voting restrictions. No shareholder agreements on the use of voting rights in the company or agreements on restricting the transfer of company shares are known to the company.

Board of Directors and Board Committees

TERM, COMPOSITION AND

INDEPENDENCE OF THE BOARD OF DIRECTORS

According to the Articles of Association, the term of office of each Board member is three (3) years with the term starting at the close of the General Meeting electing the member and expiring at the close of the third (3rd) Annual General Meeting after the election.

According to the Articles of Association, Kesko's Board of Directors consists of a minimum of five (5) and a maximum of eight (8) members. The General Meeting elects all members of the Board of Directors. The Board elects the Chair and the Deputy Chair from among its members. The Board of Directors elected by Kesko's Annual General Meeting of 30 March 2009 consists of seven (7) members: Heikki Takamäki (Chair), Seppo Paatelainen (Deputy Chair), Maarit Näkyvä, Ilpo Kokkila, Esa Kiiskinen, Mikko Kosonen and Rauno Törrönen. According to the Articles of Association, the term of each Board member will expire at the close of the 2012 Annual General Meeting.

All of Kesko's Board members are non-executive directors. The Board of Directors evaluates the independence of its members on a regular basis. Each Board member is obliged to provide the Board with sufficient information that will allow the Board to evaluate his/her independence. The majority of Kesko's Board members are independent of the company and all Board members are independent of the company's significant shareholders. Board members Heikki Takamäki, Esa Kiiskinen and Rauno Törrönen each have a corporation over which they exercise control and which has a chain agreement with a Kesko Group company.

PRINCIPAL DUTIES

The function of Kesko's Board of Directors is to duly arrange the company's management, operations and accounting, and to supervise the company's financial management. The Board of Directors has confirmed the written rules of procedure that specify the Board of Directors' duties, business to be handled, meeting practice and the decision-making process. The Board of Directors handles and decides on all matters that are financially, commercially or fundamentally significant for the Group's operations.

The principal duties of the Board of Directors include:

- making decisions on Group strategy and confirming strategies for the divisions
- confirming the Group's rolling plan, which includes the investment plan
- approving the Group's financing and investment policy
- confirming the Group's risk management policy and handling the Group's major risks and uncertainties
- confirming the Group's insurance policy
- handling and adopting consolidated financial statements, interim reports and related stock exchange releases and the report by the Board of Directors
- making decisions on strategically or financially important individual capital expenditure, acquisitions, disposals or other arrangements, and contingent liabilities
- making decisions on management authorisation rules
- making decisions on key Group structure and organisation
- appointing and dismissing the company's President and CEO approving his/her managing director's service contract and making decisions on his/her salary and other financial benefits
- approving the appointments, salaries and financial benefits of the Corporate Management Board members responsible for business divisions
- making decisions on Kesko's remuneration systems including possible granting of stock options within the terms and conditions decided by the General Meeting
- establishing a dividend policy and being responsible for the development of shareholder value
- confirming the company's values
- handling the Corporate Responsibility Report.

DECISION-MAKING, ACTIVITIES AND MEETINGS

The purpose of Kesko's Board of Directors is to promote the interests of Kesko and all its shareholders. In the company, the Board members do not represent the interests of the parties who proposed their election. Board members are disqualified from participating in the handling of any matter between him/her and the company. When a vote is taken, the Board of Directors' decision will be the opinion of the majority. If the vote results in a tie, the decision will be the opinion supported by the Chair. If the votes cast at an election end in a tie, the results will be decided by drawing lots.

The Board met 10 times in 2009, and the average attendance at meetings was 98.6%. New Board members were systematically introduced to Kesko's activities during the year.

At its meetings, the Board of Directors has focused particularly on strategies of the Kesko Group and its divisions. At the meetings, the Board receives regular reviews from the President and CEO, handles financial reports and actively monitors the financial situation of the Kesko Group. It also approves major capital expenditure, such as store site investments. On the basis of the

Audit Committee's recommendation, the Board handles and approves the interim reports and the financial statements before they are published. The Board also discusses reports on committee meetings, made by the Chairs of the Audit Committee and the Remuneration Committee. The auditor presents his findings to the Board once a year.

The Board of Directors regularly assesses its operations and working practices and carries out a related self-assessment once a year. Most recently the Board made a self-assessment of its operations and working practices in December 2009. This was based on a questionnaire, followed by a discussion on the results and further actions. On the basis of the assessment, the Board of Directors decided to continue to focus on strategies.

COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors has an Audit Committee and a Remuneration Committee, both of which consist of three (3) Board members. At the close of the Annual General Meeting, the Board of Directors elects the Chairs and the members of the Committees from among its members for one year at a time. All members of

Members of Kesko Corporation's Board of Directors and its Committees and their attendance at meetings in 2009

	Committee membership	Attendance		
		Board	Audit Committee	Remuneration Committee
Heikki Takamäki (Chair)	Remuneration Committee (Chair)	10/10	–	3/3
Esa Kiiskinen**		8/8	–	–
Ilpo Kokkila	Remuneration Committee**	10/10	–	3/3
Mikko Kosonen**	Audit Committee	8/8	4/4	–
Maarit Näkyvä	Audit Committee (Chair)	10/10	5/5	–
Seppo Paatelainen (Dep. Chair since 30.3.2009)	Audit Committee, Remuneration Committee**	9/10	4/5	3/3
Rauno Törrönen**		8/8	–	–
Keijo Suila (Dep. Chair until 30.3.2009)*	Audit Committee, Remuneration Committee	2/2	1/1	–
Pentti Kalliala*	Remuneration Committee	2/2	–	–
Jukka Säilä*	–	2/2	–	–

Independence of the Board members in 2009

	Independent of the company	Independent of significant shareholders
Heikki Takamäki (Chair)	No***	Yes
Esa Kiiskinen**	No***	Yes
Ilpo Kokkila	Yes	Yes
Mikko Kosonen**	Yes	Yes
Maarit Näkyvä	Yes	Yes
Seppo Paatelainen (Dep. Chair since 30.3.2009)	Yes	Yes
Rauno Törrönen**	No***	Yes
Keijo Suila (Dep. Chair until 30.3.2009)*	Yes	Yes
Pentti Kalliala*	No***	Yes
Jukka Säilä*	No***	Yes

* until 30 March 2009

** since 30 March 2009

*** The companies in which Kalliala, Kiiskinen, Säilä, Takamäki and Törrönen exercise control each have a chain agreement with a Kesko Group company.

the Audit Committee are independent of the company and its significant shareholders. All members of the Remuneration Committee are independent of the company's significant shareholders and the majority of them are also independent of the company. The Committees regularly assess their operations and working practices and carry out a related self-assessment once a year. The Board of Directors has confirmed written rules of procedure for the Committees that lay down their key duties and operating policies.

The Committees have no independent decision-making power, but the Board makes decisions based on the preparations made by the Committees. The Chair of the Committee reports on the work of the Committee at the Board of Directors meeting following the Committee meeting. Minutes of all Committee meetings are submitted to Board members for information.

Kesko's Board of Directors has not established any other committees in addition to the Audit and Remuneration Committees.

Audit Committee and its activities

The Audit Committee comprises Maarit Näkyvä (Chair), Seppo Paatelainen and Mikko Kosonen.

According to the rules of procedure, the duties of the Audit Committee include:

- monitoring the financial position and financing of the Kesko Group
- monitoring the company's financial statements reporting process
- supervising the company's financial reporting process
- evaluating the efficiency of the company's internal control, internal audit and risk management systems
- handling the Corporate Governance Statement submitted by the company, including a description of the main features of the internal control and risk management systems related to the financial reporting process
- handling the plans and reports of the Corporate Internal Audit
- monitoring the statutory audit of the financial statements and consolidated financial statements
- evaluating the independence of the company's audit firm
- evaluating the related services provided to Kesko by the company's audit firm and the audit companies belonging to the same chain
- preparing the draft resolution concerning the election of the company's auditor
- maintaining contact with the company's auditor.

The Audit Committee met five (5) times in 2009, and the average attendance at meetings was 93.3%. At Committee meetings, the CFO, the Corporate Controller, the Chief Audit Executive and the General Counsel of the Group give regularly reports on their areas of responsibility to the Committee. The Committee also receives information on the Kesko Group's financing, risk management and insurances. The auditor is present at meetings and presents his audit plan and report to the Audit Committee.

During the year, the Committee handled reports on the financial position of the Group, including the financial statements

release and interim reports before they were published and recommended that the Board of Directors discuss the interim reports and the financial statements release. It discussed the Group's external and internal audit and risk management reports, and made a proposal to the Annual General Meeting on the auditor to be elected for Kesko.

Remuneration Committee and its activities

The Remuneration Committee comprises Heikki Takamäki (Chair), Seppo Paatelainen and Ilpo Kokkila.

According to the rules of procedure, the duties of the Remuneration Committee include:

- preparing the salary and other financial benefits of the company's President and CEO for the company's Board of Directors
- preparing the salaries and other financial benefits of the Corporate Management Board members responsible for the business divisions
- preparing the appointment matters of the President and CEO and the Corporate Management Board members responsible for the business divisions and the assessment of their successors
- preparing and developing the company's remuneration systems, including the preparation of matters related to the possible granting of stock options for the company's Board of Directors on terms and conditions decided by a General Meeting.

The Remuneration Committee met three (3) times in 2009, and the average attendance at meetings was 100%. The committee prepared a proposal for the Board of Directors on granting stock options as part of the Group executives' and other key persons' long-term incentive system, and approved the principles of the Group's performance bonus system. It also monitored progress on the Group's work and productivity programme.

Further information on Kesko's Board members is available on pages 66–67 and at www.kesko.fi.

President and CEO

Kesko's President and CEO is Matti Halmesmäki, M.Sc. (Econ.), LL.M. He has been Kesko's President and CEO since 1 March 2005.

The President and CEO is responsible for managing the company's activities within the guidelines and limits set by the Board of Directors, and informing the Board of Directors about the development of the company's business and financial position. He is also responsible for arranging the company's day-to-day administration and for ensuring the reliable arrangement of the company's financial administration. The President and CEO also chairs the Corporate Management Board and the Boards of the Group's major subsidiaries, such as Kesko Food Ltd and Rautakesko Ltd.

The President and CEO is elected by the Board of Directors, which also decides on the terms of the President and CEO's service contract.

A written managing director's service contract has been made between the company and the President and CEO.

Further information on Kesko's President and CEO is presented on page 68 and at www.kesko.fi.

Corporate Management Board

The Kesko Group has a Corporate Management Board, the Chair of which is Kesko's President and CEO.

The Corporate Management Board has no authority based on legislation or the Articles of Association. The Corporate Management Board is responsible for dealing with Group-wide development projects and Group-level policies and practices. In addition, the Corporate Management Board deals with the Group's and the division parent companies' business plans, profit performance and matters handled by Kesko's Board of Directors, in whose preparation it also participates. The Corporate Management Board meets 8–10 times a year.

Further information on Kesko's Corporate Management Board is presented on pages 68–69 and at www.kesko.fi.

Members of the Corporate Management Board and their responsibility areas in 2009

Corporate Management Board member since	Responsibility area
Matti Halmesmäki, Chair	Kesko's President and CEO
Terho Kalliokoski President of Kesko Food Ltd	Food trade
Jari Lind President of Rautakesko Ltd	Building and home improvement trade
Matti Leminen President of Anttila Oy	Home and speciality goods trade
Pekka Lahti President of VW-Auto Group Oy	Car and machinery trade
Arja Talma, Kesko's Senior Vice President, CFO	Finance
Riitta Laitasalo Kesko's Senior Vice President, Human Resources	Human Resources
Paavo Moilanen Kesko's Senior Vice President, Corporate Communications and Responsibility	Corporate Communications and Responsibility

Board of Directors' annual and meeting fees in 2006–2009, decided by the Annual General Meeting

Annual fee	2009	Fee per year, € 2006–2008
Chair of the Board	80,000	60,000*
Deputy Chair of the Board	50,000	42,000*
Board member	37,000	30,000*
Meeting fees	2009	Fee per meeting, € 2006–2008
Fee for Board meeting	500	500
Fee for Committee meeting	500	500
Fee to Chair for Committee meeting if he/she is not also Chair or Deputy Chair of the Board	1,000	1,000

* Monthly fees decided in 2006–2008 have been converted into annual fees.

Annual and monthly fees paid to the members of the Board of Directors in 2009 for Board and Committee work

	Annual fees	Meeting fees		Remuneration Committee	Total, €
		Board	Audit Committee		
Heikki Takamäki (Chair)	75,000	5,000	–	1,500	81,500
Esa Kiiskinen**	27,750	4,000	–	–	31,750
Ilpo Kokkila	35,250	5,000	–	1,500	41,750
Mikko Kosonen**	27,750	4,000	2,000	–	33,750
Maarit Näkyvä	35,250	5,000	5,000	–	45,250
Seppo Paatelainen (Dep. Chair since 30.3.2009)	45,000	4,500	2,000	1,500	53,000
Rauno Törrönen**	27,750	4,000	–	–	31,750
Keijo Suila (Dep. Chair until 30.3.2009)*	10,500	1,000	500	–	12,000
Pentti Kalliala*	7,500	1,000	–	–	8,500
Jukka Säilä*	7,500	1,000	–	–	8,500
Total	299,250	34,500	9,500	4,500	347,750

* until 30 March 2009 ** since 30 March 2009

Remuneration

REMUNERATION AND OTHER FINANCIAL BENEFITS OF THE BOARD OF DIRECTORS AND ITS COMMITTEES

The Annual General Meeting makes decisions on the annual remuneration and other financial benefits of the members of the Board of Directors and its Committees. All fees of the members of the Board and its Committees are paid in cash. Board members have no share or share-linked remuneration systems.

REMUNERATION OF THE PRESIDENT AND CEO AND OTHER EXECUTIVES

The remuneration system of the President and CEO and other executives of Kesko consists of a fixed monthly salary, a performance bonus based on criteria set annually, an executive's pension benefits, and a stock option system. The company has no share remuneration system.

Kesko's Board of Directors makes decisions on the individual salaries and other financial benefits of the President and CEO and the Corporate Management Board members responsible for the business divisions, on the principles of the performance bonus system, and on the bonuses to be paid. As for the other executives, Kesko's Board of Directors makes decisions on performance bonus principles. The President and CEO makes decisions on the salaries and bonuses of Corporate Management Board members

other than those mentioned above and on the details of other executives' performance bonus systems, following the one-over-one principle. Depending on the profit impact of each management position, the maximum bonuses of Kesko's President and CEO and other company executives can vary up to an amount corresponding to an executive's salary for 3–8 months. The performance bonus criteria consist of the Group's profit before extraordinary items and tax, the executive's area-specific EP ratio and operating profit, net sales performance, customer and personnel indicators, and an overall assessment. The results used as the basis for the performance bonuses are exclusive of non-recurring items, and the weights given to the bonus criteria vary depending on the task. Bonuses are paid at the end of March, after the annual financial statements have been completed. The management's performance bonus system covers about 100 executives of the Kesko Group.

In addition, Kesko has a valid year 2003 stock option scheme for Kesko Group executives, which expires on 30 April 2010, and a valid year 2007 stock option scheme for Group executives and other key persons. The 2007 option scheme includes an obligation placed by Kesko's Board of Directors on option recipients to use 25% of their option income to buy company shares for permanent ownership. Kesko's Board of Directors makes decisions on the distribution of stock options on the basis of proposals

Salaries, bonuses and fringe benefits of the President and CEO and the Corporate Management Board in 2008–2009

	Fixed salary		Bonuses		Fringe benefits		Total	
	2009	2008	2009**	2008***	2009	2008	2009	2008
Matti Halmesmäki	569,300	541,100	152,250	280,000	23,014	17,460	744,564	838,560
Corporate Management Board*	1,415,291	1,359,636	93,650	346,910	112,441	101,085	1,621,382	1,807,631
Total	1,984,591	1,900,736	245,900	626,910	135,455	118,545	2,365,946	2,646,191

* excluding President and CEO Matti Halmesmäki ** based on 2008 performance ***based on 2007 performance

Stock options granted to the members of the Corporate Management Board in 2007–2009, and the members' retirement age and benefits, notice period and severance pay

	Granted stock options			Retirement age	Retirement benefits*, pension as % of pensionable salary	Notice period, months	Severance pay
	2009 (2007C)	2008 (2007B)	2007 (2007A)				
Matti Halmesmäki, Chair	50,000	50,000	50,000	60	66	6	12 months' salary
Terho Kalliokoski	30,000	25,000	25,000	62	66	6	6 months' salary
Jari Lind	25,000	25,000	25,000	62	66	6	6 months' salary
Matti Leminen	20,000	20,000	20,000	60	66	6	12 months' salary
Pekka Lahti	20,000	20,000	20,000	62	66	6	6 months' salary
Arja Talma	25,000	25,000	25,000	Based on the Employees' Pensions Act	Based on the Employees' Pensions Act	6	6 months' salary
Riitta Laitasalo	15,000	15,000	15,000	60	66	6	12 months' salary
Paavo Moilanen	15,000	15,000	15,000	60	66	6	12 months' salary
Total	200,000	195,000	195,000				

* Supplementary pension benefits are granted by department A of the Kesko Pension Fund in accordance with its rules.

made by the Remuneration Committee and within the terms and conditions of the stock option scheme decided by the company's General Meeting.

Further information on the terms and conditions of Kesko's stock option schemes is available on pages 147–148 and at www.kesko.fi.

Outline of internal control and risk management systems related to the Group's financial reporting

KESKO'S MANAGEMENT SYSTEM

Kesko's financial reporting and planning are based on the Kesko Group's management system (Fig. 1). The Group units' financial results are reported and analysed inside the Group on a monthly basis, and disclosed in interim reports published quarterly. Financial plans are prepared for quarterly periods, in addition to which significant changes are taken into account in the monthly performance forecasts. The Group's and its units' strategies and related long-term financial plans are updated annually.

ROLES AND RESPONSIBILITIES

The Kesko Group's financial reporting and its control is divided between three organisational levels. The subsidiaries analyse and report their figures to the respective divisions, which then report the division-specific figures to Corporate Accounting. Analyses and controls for ensuring the correctness of reporting are used at each level.

The correctness of reporting is ensured by using different automated and manual controls at every reporting level. In addition, the income statement and balance sheet are analysed by controllers at subsidiary, division and Group level every month. The implementation of analyses and controls is supervised on a monthly basis at company, division and Group level.

PLANNING AND PERFORMANCE REPORTING

The Group's financial performance and the achievement of financial objectives are monitored via Group-wide financial reporting. Monthly performance reporting includes Group-, division- and subsidiary-specific results, progress compared to the previous year, comparisons with financial plans, and forecasts for the next 12 months. The Group's short-term financial planning is based on plans drawn up by the quarter, extending for 15 months. The financial indicator for growth is sales performance, while that for profitability is the accumulation of economic value added, monitored via monthly internal reporting. When calculating economic value added, the requirements concerning return on capital are determined annually on market terms, and the performance requirements take account of risk-related division- and country-specific differences. Information about the Group's financial situation is given by interim reports and the financial statements release. The Group's sales figures are published in a stock exchange release each month.



Fig 1.

The Kesko Group's management system

Financial planning takes place in the subsidiaries, divisions and the Group where rolling plans, each for a 15-month period, are made. The plans are updated quarterly, and any significant changes are taken into account in the monthly performance forecasts. Any deviations between the plan and the actual result are analysed by the company, division and Corporate Accounting, and the reasons are reported to the division and Corporate Accounting every month.

The performance reports provided monthly for the Group's top management comprise the subsidiaries', divisions' and the consolidated income statements and balance sheets. Each subsidiary is primarily responsible for the financial reporting and the correctness of its figures. The financial management and the controlling function of each division analyse the respective division's figures, while Corporate Accounting analyses the whole Group's figures. The income statement and the balance sheet are analysed monthly at the company, division and Group level, based on the documented division of duties and specified reports. This enables a real-time knowledge of the financial situation, as well as real-time response to possible defects. The performance reports provided for the top management also include Group-level monitoring of sales on a weekly, monthly and quarterly basis.

Public performance reporting comprises interim reports, the annual financial statements and monthly sales reports. The same principles and control methods are applied to the public performance reporting as to the monthly performance reporting. The Audit Committee reviews the interim report and the financial statements and gives a recommendation to the Board of Directors. The Board of Directors approves the interim report and the financial statements before they are published.

ACCOUNTING POLICIES AND FINANCIAL MANAGEMENT IT SYSTEMS

The Kesko Group has adopted the International Financial Reporting Standards (IFRSs) endorsed by the European Union. The accounting policies adopted by the Group are included in the accounting manual, updated as the standards are amended. The manual contains guidelines for stand-alone companies, the parent company, and instructions for the preparation of consolidated financial statements.

The Kesko Group's financial management information is generated by division-specific enterprise resource planning systems, via a centralised and controlled common interface, into the Group's centralised consolidation system, to produce the Group's main financial reports. The key systems used in the production of financial information are certified and secured by back-up systems, and they are controlled and checked regularly to ensure reliability and continuity.

Risk management and internal audit RISK MANAGEMENT IS AN INTEGRAL PART OF KESKO'S MANAGEMENT

Kesko's risk management is proactive and an integral part of management and day-to-day activities. The objective of Kesko's risk management is to ensure the implementation of Group strategies, the delivery of customer promises, the maintenance of shareholder value, and the continuity of business. Efficient risk management is a competitive advantage for Kesko.

The risk management policy approved by the Board of Directors guides risk management in the Kesko Group. The policy defines the objectives, principles, responsibilities and key practices of risk management. Kesko divides risks into strategic, financial, operational and damage/loss risks.

In the Kesko Group, a risk is defined as any kind of uncertainty that may lead to:

- a failure to exploit business opportunities,
- events or reasons which prevent or hinder the attainment of objectives or have other unwanted consequences.

The Kesko Group applies a business-oriented and comprehensive approach to risk assessment and management. This means that key risks are systematically identified, assessed, managed, monitored and reported as part of business activities at the Group, division, company and unit levels in all the countries where Kesko operates. Risk identification and assessment play a key role in Kesko's strategies and rolling planning.

Kesko has a uniform risk assessment and reporting system. Risks are identified and prioritised by assessing the impact and probability of their materialisation, and the level of management. An owner is named for all risks and the most significant risks are analysed in detail to find out causes and effects. The risks classified as critical are regularly dealt with by the Corporate Management Board, which also monitors the actions taken. The development of the risk situation is also assessed on the basis of the progress made through these actions and the changes in external factors, for example. In risk assessments the time span is one year, except for strategic risks where the span is 3–5 years. The outcome is a clearer picture of the scope, mutual relations and expected trends of the risks.

The management of financial risks is based on the Group's treasury policy, confirmed by Kesko's Board of Directors. The Group Treasury is centrally responsible for funding, liquidity management, debt investor relations and the management of financial risks.

Providing insurance cover is part of Kesko's risk management, and the insurance policy confirmed by Kesko's Board of Directors defines the principles of providing insurance. The aim is to ensure that the Group's employees, property, business and liabilities have proper and economical insurance cover, while taking account of legislative requirements, and the Group's current risks and risk-bearing capacity. The Group's risk management functions are responsible for providing Group-level insurance

programmes, for their competitive tendering and for brokerage services as part of the Group's damage/loss risk management.

THE KESKO GROUP'S PRINCIPLES OF RISK MANAGEMENT

Objectives relating to risks and opportunities are set for the divisions and the business operations.

- We take conscious and carefully evaluated risks within the limits set in strategy selections e.g. in expanding business operations, in enhancing market position and power, and in creating new business. Risk-taking is based on the defined risk-bearing capacity.
- We avoid or reduce financial, operational and damage/loss risks.
- We ensure a safe shopping environment for customers and product safety.
- We create a safe working environment for employees.
- We minimise opportunities for unhealthy phenomena, crime or malpractice through operating principles, controls and supervision.
- The continuity of operations is ensured by safeguarding critical functions and essential resources.
- Crisis management and continuity plans are prepared in case any risks are realised.
- The costs and resources involved in risk management are in proportion to the obtainable benefits.
- Information on risks and risk management is provided to stakeholders.

RESPONSIBILITIES AND ROLES IN RISK MANAGEMENT

The business division and Group management are responsible for risk management in practice. Each division has appointed one Board member, usually the finance director, to be responsible for coordinating risk management and security and providing guidelines in each respective division and reporting on risk management activities. In addition, the food, building and home improvement, and home and speciality goods divisions each have a risk manager who is responsible for the development and control of risk management and security in the division in cooperation with the business management and supporting functions.

The Group's risk management function controls and coordinates the development of joint risk management and security procedures, introduces best practices to the Group and reports on risk management to the Group management.

Kesko has a Group-level Risk Management Steering Group, which is chaired by the President and CEO, and consists of the representatives of the management of the various divisions and Group units. The Steering Group discusses risk management and safety procedures and key policy definitions, and assesses and monitors the Group's risks and safety situation, and the implementation of risk management responses.

Kesko's Board of Directors discusses the major risks and the responses required to control them, and assesses the efficiency of risk management. Significant risks and uncertainties, as well

as changes in and responses to them, are reported to Kesko's Board of Directors' Audit Committee when the interim reports are handled. The Board of Directors also submits reports to the market on significant risks and uncertainties in connection with the financial statements as part of the Report by the Board of Directors.

The Corporate Internal Audit annually assesses the efficiency of the Group's risk management and reports on it to Kesko's Board of Directors' Audit Committee.

RISK MANAGEMENT IN 2009

As a result of the global financial crisis, risk management has become increasingly important. Risk management has been harmonised in the Kesko Group and divisional management now plays an increasingly important role in risk management. The risk assessment and management system has been made more explicit, and the process is now more efficiently applied in all countries where Kesko operates.

The divisions have made their risk assessments and updated them according to the schedule of the strategy process and rolling planning. The management of the division parent companies and the Group have discussed the companies' risks and how to manage them. In their own areas of responsibility, the Group units have also analysed the risks threatening Group objectives and how to manage them.

On the basis of these risk analyses, the Group's risk management function has prepared summaries of significant risks and their management on a quarterly basis. The resulting risk report has been handled by the Audit Committee of Kesko's Board of Directors. Major risks and uncertainties have been reported in connection with the interim reports.

Continuity has been ensured by updating the existing continuity and contingency plans, arranging crisis exercises and appointing substitutes for people in critical duties. Preparations for the swine flu pandemic started in the spring. The risk management function has also arranged competitive tendering of insurances, improved loss prevention and the safety of shopping centres. As a result of the 'glass splint problem' that spread from Sweden, Kesko revised its instructions relating to groceries.

FOCAL AREAS OF RISK MANAGEMENT IN 2010

Kesko's risk management function will continue its work to reduce wastage, prevent malpractice, maintain and test continuity plans, and provide cost-efficient insurance services. Management's crisis exercises will be arranged on a more regular basis. The risk reporting model will be developed, for example, by improving the use of electronic portals.

The risk management function works in close cooperation with other Group units, particularly with the finance, treasury and IT functions. Cooperation will be improved with the Corporate Internal Audit and responsibility functions in order to ensure that ethical working principles are implemented and the management of environmental risks improves.

Significant risks and uncertainties related to Kesko's business operations and risk management responses are described in the Report by the Board of Directors on pages 71–77, in notes Nos. 44–45 to the consolidated financial statements on pages 133–135 and at www.kesko.fi.

INTERNAL AUDIT

Kesko's Corporate Internal Audit is responsible for the Group's independent assessment and assurance function, required from a listed company, which systematically defines and verifies the efficiency of risk management and control, as well as of management and administration. The management and organisation are supported to ensure that Kesko's goals and objectives are achieved, and to develop the control system. The Audit Committee of Kesko's Board of Directors has confirmed the Charter of Kesko's Corporate Internal Audit.

The Corporate Internal Audit works under the Group's President and CEO and the Audit Committee, and it reports on its audit findings and recommendations to the Audit Committee, the President and CEO, the management of the audited activity or business, and the external auditors. The function covers all of Kesko's divisions, companies and activities. The Corporate Internal Audit is divided into the foreign audit, the Group audit and the IT audit and has a staff of 11. Auditing is based on risk analyses and the control discussions carried on with Group and divisional management. An internal audit plan, subject to approval by the President and CEO and the Audit Committee, is prepared annually. The Corporate Internal Audit can also carry out special audits during the year. If required, the unit acquires external services for occasional needs or assessment assignments that require special competence.

The Corporate Internal Audit cooperates with the Group's risk management function and participates in the work of the Risk Management Steering Group. The Corporate Internal Audit assesses the effectiveness of Kesko's risk management system annually.

According to its Charter, the Corporate Internal Audit must have sufficient resources available and the knowledge, skills and other competencies needed for performing its duties. The auditors' competencies are developed by systematic professional

education and examinations. Kesko's Corporate Internal Audit currently has six employees with the international qualification of Certified Internal Auditor, granted by the Institute of Internal Auditors (IIA). The extent and expertise of auditing is ensured and coordinated by regular contacts and exchange of information with the Group's other internal assurance operations and external auditors.

The focal areas in the internal audit have included foreign operations and corporate IT. In foreign operations audits, the emphasis has been on basic controls and the management of goods stocks and trade receivables, while in the corporate IT audit special attention has been paid to new systems projects, IT continuity and security. Compliance with Kesko's accounting policies and reporting guidelines has been verified and assessed in audits in Finland and other countries.

Auditing

According to the Articles of Association, Kesko has one (1) auditor, which shall be an audit firm authorised by the Central Chamber of Commerce. The Board of Directors' Audit Committee prepares the Board's proposal concerning the company's auditor for presentation at a General Meeting. The term of an auditor is the company's financial period and an auditor's duties terminate at the close of the Annual General Meeting following the election. A company belonging to the same chain as the audit firm represented by the auditor elected by Kesko's General Meeting acts primarily as the auditor of the Group subsidiaries outside Finland.

The 2009 Annual General Meeting re-elected PricewaterhouseCoopers Oy, Authorised Public Accountants, as the company's auditor, with APA Johan Kronberg as the auditor with principal responsibility. PricewaterhouseCoopers Oy acts primarily as the auditor of all subsidiaries, coordinates auditing and prepares a compilation report about its findings to the Audit Committee for all the auditors of Group companies. Auditors annually audit both individual legal companies and the consolidated financial statements.

The auditor presents the audit report required by law to Kesko's shareholders in connection with the company's financial statements. The auditor regularly participates in the meetings of

Auditors' fees:

€ thousand	2009				2008			
	PwC		Other audit companies	Total	PwC		Other audit companies	Total
	Kesko Corporation	Other Group companies			Kesko Corporation	Other Group companies		
Auditing	129	717	63	909	84	785	155	1,024
Tax counselling	16	48	50	114	122	49	46	216
IFRS counselling	6	–	2	8	24	–	4	28
Other services	82	74	101	257	109	570	259	938
Total	233	839	216	1,288	339	1,404	464	2,206

the Audit Committee, and reports on his findings to it. The Audit Committee regularly assesses the independence of the audit firm and the auxiliary services provided by it.

Insider administration

KESKO'S INSIDER REGULATIONS

Kesko complies with the insider guidelines of NASDAQ OMX Helsinki Ltd., effective as of 9 October 2009. Kesko's Board of Directors has confirmed Kesko's insider regulations for permanent and project-specific insiders. The contents of the regulations correspond with the insider rules of NASDAQ OMX Helsinki Ltd. Kesko's insider regulations have been distributed to all insiders.

KESKO'S PERMANENT INSIDERS AND INSIDER REGISTERS

In accordance with the Securities Markets Act, Kesko's permanent public insiders include Kesko's Board members, the President and CEO (managing director), and the audit firm's auditor with principal responsibility for Kesko. Kesko Corporation's Board of Directors has also stipulated that, in addition to the President and CEO, other members of the Corporate Management Board are regarded as the company's permanent public insiders. All permanent public insiders and the statutory information about them, their related persons and the corporations that are controlled by related persons or in which they exercise influence, have been entered in Kesko's register of public insiders.

Other permanent insiders of Kesko include persons working in positions determined by the Board of Directors who, in their duties, receive insider information on a regular basis and who are thus entered in the company's own, non-public insider register. Kesko's company-specific insider register is divided into individual registers that consist of permanent insiders and of possible insider projects and persons participating in their preparation.

MONITORING

The Group's Legal Affairs Unit monitors the compliance with insider regulations and maintains the company's insider registers in cooperation with Euroclear Finland Ltd. At regular intervals, the Legal Affairs Unit sends an extract of the information in the insider register to permanent public insiders for checking and monitors the compliance with permanent insiders' trading

restrictions. Kesko's permanent insiders may not acquire or transfer securities issued by the company, including securities or derivative financial instruments entitling to them, during 21 days prior to the publication of interim reports and during 28 days prior to the publication of annual financial statements. These publication dates are announced annually beforehand in a stock exchange release. Furthermore, people involved in possible insider projects may not trade in Kesko's securities or derivative financial instruments during such a project.

Further information on the holdings of Kesko's permanent public insiders is available on pages 66–69 and at www.kesko.fi.

Other matters

STOCK EXCHANGE COMMUNICATIONS AND STOCK EXCHANGE RELEASES

The Group's Senior Vice President, CFO is responsible for the financial content of stock exchange releases as well as for investor information. The Corporate Communications and Responsibility Unit produces Group-level communications material and is responsible for providing stock exchange releases and financial information. The Vice President, General Counsel is responsible for ensuring that the rules related to stock exchange releases are observed at Kesko.

In its investor communications, Kesko follows the principle of impartiality and publishes all investor information on its website in Finnish and English. Kesko observes a two (2) week period of silence before publishing information on its results.



Board of Directors on 31 December 2009

Heikki Takamäki

b. 1947

Domicile: Tampere, Finland.

Chair of the Board and the Remuneration Committee.

Principal occupation: Retailer, K-rauta Rauta-Otra Nekala.

Main employment history: K-rauta retailer since 1979. Kesport-Inter-sport retailer 1995–1999.

Board member since: 1 January 2001.

Main simultaneous positions of trust: –

Fees in 2009: €81,500.

Kesko shares and stock options held on 1 January 2009: 104,470 A shares and 68,120 B shares held by him or his company. No stock options.

On 31 December 2009: 104,470 A shares and 68,120 B shares held by him or his company. No stock options.

Seppo Paatelainen

b. 1944, M.Sc. (Agr. & For.)

Domicile: Seinäjoki, Finland.

Deputy Chair of the Board, and member of the Audit Committee and the Remuneration Committee.

Principal occupation: –

Main employment history: Itikka Co-operative: Director 1970–1973, Luja-Yhtiöt: Director, Itikka Lihabotnia Oy and Itikka Co-operative: CEO 1988–1991, Atria Group plc: CEO 1991–2006.

Board member since: 27 March 2006.

Main simultaneous positions of trust: Alma Media Corporation: Deputy Chair of the Board of Directors, Ilkka-Yhtymä Oy: Chair of the Board of Directors, Finavia Corporation: Chair of the Board of Directors, Seinäjoki Region Business Service Center: Chair of the Board of Directors
Fees in 2009: €53,000.

Kesko shares and stock options held on 1 January 2009: No shares. No stock options.
On 31 December 2009: No shares. No stock options.

Esa Kiiskinen

b. 1963, Business College Graduate

Domicile: Helsinki, Finland.

Principal occupation: Retailer, K-supermarket Kontumarket, Helsinki.

Main employment history: K-food retailer since 1990.

Board member since: 30 March 2009.

Main simultaneous positions of trust: K-Retailers' Association: Chair of the Board of Directors, the Foundation for Vocational Training in the Retail Trade: Chair of the Board of Directors, Vähittäiskaupan Tilipalvelu VTP Oy: member of the Board of Directors, the Federation of Finnish Commerce: member of the Board of Directors, Saija ja Esa Kiiskinen Oy: Chair of the Board of Directors.

Fees in 2009: €31,750.

Kesko shares and stock options held on 30 March 2009: 102,350 A shares and 0 B shares held by him or his company. No stock options.

On 31 December 2009: 102,350 A shares and 0 B shares held by him or his company. No stock options.

Ilpo Kokkila

b. 1947, M.Sc. (Techn.)

Domicile: Helsinki, Finland.

Member of the Remuneration Committee.

Principal occupation: SRV Group Plc: Chair of the Board of Directors.

Main employment history: A-Betoni Oy: Constructor 1972–1974, Perus-yhtymä Oy: Director 1974–1987, SRV Group Plc: Chair of the Board of Directors 1987–, Pontos Ltd: Chair of the Board of Directors 2002–

Board member since: 27 March 2006.

Main simultaneous positions of trust: JTO School of Management: Chair of the Board of Directors, Finnish-Russian Chamber of Commerce (FRCC): Deputy Chair of the Board of Directors.

Fees in 2009: €41,750.

Kesko shares and stock options held on 1 January 2009: 16,100 B shares held by him. No stock options.
On 31 December 2009: 16,100 B shares held by him. No stock options.



Mikko Kosonen

b. 1957, D.Sc. (Econ.)

Domicile: Espoo, Finland

Member of the Audit Committee.

Principal occupation: Executive Vice President of Finnish Innovation Fund Sitra.

Main employment history: Nokia plc: Senior Vice President for Strategic Planning and Information Management 1996–2005 and Senior Advisor 2005–2007. Finnish Innovation Fund Sitra: Executive Vice President 2007–2008 and President 2008–.

Board member since: 30 March 2009.

Main simultaneous positions of trust: Itella Corporation: Deputy Chair of the Board of Directors, Fifth Element Ltd: member of the Board of Directors, Kauppatieteellinen yhdistys: member of the Board of Directors.

Fees in 2009: €33,750.

Kesko shares and stock options held on 30 March 2009: No shares.

No stock options.

On 31 December 2009: No shares.

No stock options.



Maarit Näkyvä

b. 1953, M.Sc. (Econ.)

Domicile: Kirkkonummi, Finland.

Chair of the Audit Committee.

Principal occupation: –

Main employment history: Unitas Bank Ltd.: Director 1990–1995, Merita Bank Ltd.: Director 1995–1996, Merita Fund Management Ltd: President 1996–1997, Leonia Bank plc: member of the Board of Directors 1998–2000. Sampo plc's Executive Vice President 2001–2006. Sampo Bank plc's Deputy CEO 2005–2008.

Board member since: 1 January 2001.

Main simultaneous positions of trust: –

Fees in 2009: €45,250.

Kesko shares and stock options held on 1 January 2009: No shares. No stock options.

On 31 December 2009: No shares.

No stock options.



Rauno Törrönen

b. 1958, Hospitality Management

Training

Domicile: Joensuu, Finland.

Principal occupation: Retailer, K-citymarket Kauppakatu, Joensuu.

Main employment history: Pohjois-Karjalan Osuuskauppa: member of the management team 1986–1998. K-food retailer since 1998.

Board member since: 30 March 2009.

Main simultaneous positions of trust: Joensuun kauppaopetuksen tukisäätiö: member of the Board of Directors, Alepro Oy: member of the Board of Directors.

Fees in 2009: €31,750.

Kesko shares and stock options held on 30 March 2009: 15,900 A shares and 9,600 B shares held by him or his company. No stock options.

On 31 December 2009: 15,900 A shares and 9,600 B shares held by him or his company. No stock options.

Up-to-date information about the main positions of trust of the Board members is available at www.kesko.fi.

According to the company's Articles of Association, the term of each Board member will expire at the close of the 2012 Annual General Meeting.



Corporate Management Board on 31 December 2009

Matti Halmesmäki

b. 1952, M.Sc. (Econ.), LL.M.
Kesko Corporation's President and CEO, Chair of the Corporate Management Board.

Domicile: Helsinki, Finland.

Other major duties: Confederation of Finnish Industries EK: Deputy Chair of the Board of Directors, the Finnish Fair Corporation: member of the Board of Directors, the Federation of Finnish Commerce: member of the Board of Directors, Varma Mutual Pension Insurance Company: Supervisory Board member, Luottokunta: Chair of the Supervisory Board, Foundation for Economic Education: member of the Board of Directors, Finnish Business and Policy Forum EVA: member, Helsinki Region Chamber of Commerce: Delegation member, Helsinki School of Economics: Advisory Board member, the Association for Promoting Voluntary National Defence of Finland: Delegation member, the Association for the Finnish Cultural Foundation: member, the Central Chamber of Commerce in Finland: Board member, ICC Finland – the Finnish Section of International Chamber of Commerce: Executive Board member, Savonlinna Opera Festival Patrons' Association, member of the Board of Trustees.

Employment history: employed by Kesko Ltd since 1980: Director of the Accounting and Office Administration Department 1985–1989, Executive Vice President, Finance and Accounting 1989–1993, Executive Vice President, Agricultural and Builders' Supplies Division 1993–1995, Executive Vice President, Speciality Goods Division 1995–1996, Managing Director of Tuko Oy 1996–1997, Executive Vice

President, Speciality Goods Trade 1997–2000. Member of Kesko Corporation's Board of Directors 1989–2000. President of Rautakesko Ltd and Kesko Agro Ltd 2001–2005. Kesko Corporation's Managing Director and the Kesko Group's President and CEO since 1 March 2005.

Kesko shares and stock options held on 1 January 2009: 2,000 A shares, 7,000 B shares, 50,000 2007A stock options and 50,000 2007B stock options.

On 31 December 2009: 2,000 A shares, 7,000 B shares, 50,000 2007A stock options, 50,000 2007B stock options and 50,000 2007C stock options.

Retirement age and benefits: 60 years. Full pension is 66% of the pensionable salary.

Notice period and severance pay: 6 months. A severance pay paid in addition to the salaries for the period of notice corresponds to 12 months' salary.

Corporate Management Board member since: 1 January 2001.

Terho Kalliokoski

b. 1961, M.Sc. (Econ.)
President of Kesko Food Ltd.
Domicile: Kirkkonummi, Finland

Other major duties: the Finnish Food Marketing Association: member of the Board of Directors, the Association of Finnish Advertisers: member of the Board of Directors, the Association for Finnish Work: member of the Board, Helsinki Region Chamber of Commerce: member of the Board of Directors, the Finnish 4H Federation: member of the Supervisory Board.

Employment history: employed by Kesko Ltd since 1985: Project Planner,

Store Site Office (Helsinki) 1985–1987, Investment Manager, Real Estate Department (Helsinki) 1988–1990, Financial Manager, Northern Finland (Oulu) 1990–1995, Retail Services Manager, Grocery Retail Services (Oulu) 1995–1996, Sales Director, Supermarket Chain Unit (Oulu) 1996–1997, District Director, Northern Finland (Oulu) 1998–2002, Senior Vice President, Kesko Real Estate (Helsinki), 2002–2005. President of Kesko Food Ltd since 1 May 2005.

Kesko shares and stock options held on 1 January 2009: 3,250 B shares, 25,000 2007A stock options and 25,000 2007B stock options.

On 31 December 2009: 3,250 B shares, 25,000 2007A stock options, 25,000 2007B stock options and 30,000 2007C stock options.

Retirement age and benefits: 62 years. Full pension is 66% of the pensionable salary.

Notice period and severance pay: 6 months. A severance pay paid in addition to the salaries for the period of notice corresponds to 6 months' salary.

Corporate Management Board member since: 17 March 2005.

Jari Lind

b. 1958, Engineer
President of Rautakesko Ltd.
Domicile: Vantaa, Finland.

Other major duties: –

Employment history: employed by Kesko Ltd since 1990: Rautakesko, Purchase Logistics Director 2000–2001, Vice President for the K-rauta chain and B-to-B Service 2002–2004. President of Rautakesko Ltd since 1 March 2005.

Kesko shares and stock options held on 1 January 2009: 25,000

2007A stock options and 25,000 2007B stock options.

On 31 December 2009: 25,000 2007A stock options, 25,000 2007B stock options and 25,000 2007C stock options.

Retirement age and benefits: 62 years. Full pension is 66% of pensionable salary.

Notice period and severance pay: 6 months. A severance pay paid in addition to the salaries for the period of notice corresponds to 6 months' salary.

Corporate Management Board member since: 1 March 2005.

Matti Leminen

b. 1951, B.Sc. (Econ.)
President of Anttila Oy.
Domicile: Espoo, Finland.

Other major duties: Textile and Fashion Industries TMA: member of the Board of Directors.

Employment history: employed by Kesko Ltd since 1982: Director of the Vaatehuone chain 1990–1991, Director of the Leisure Goods Department 1992–1995, Director of Kesko Sports 1995–1998, Executive Vice President of Keswell Ltd 2005–2006. President of Anttila Oy since 10 June 1998.

Kesko shares and stock options held on 1 January 2009: 20,000 2007A stock options, 20,000 2007B stock options, 7,000 2003E stock options and 12,000 2003F stock options.

On 31 December 2009: 20,000 2007A stock options, 20,000 2007B stock options, 20,000 2007C stock options and 3,000 2003F stock options.

Retirement age and benefits: 60 years. Full pension is 66% of pensionable salary.



Notice period and severance pay: 6 months. A severance pay paid in addition to the salaries for the period of notice corresponds to 12 months' salary.

Corporate Management Board member since: 1 January 2007.

Pekka Lahti

b. 1955, M.Sc. (Agr.)
President of VV-Auto Group Oy.
Domicile: Vantaa, Finland.

Other major duties: the Association of Automobile Importers in Finland: Deputy Chair of the Board of Directors, Finnish Car Recycling Ltd: member of the Board of Directors.

Employment history: employed by Kesko Ltd since 1981: Vice President, Kesko Machinery 2000, Managing Director of Konekesko Ltd since 2001 and President of Kesko Agro Ltd 2005–2008. Chair of the Board of Konekesko Ltd since 1 November 2005. President of VV-Auto Group Oy since 1 February 2006.

Kesko shares and stock options held on 1 January 2009: 20,000 2007A stock options, 20,000 2007B stock options and 23,500 2003F stock options.

On 31 December 2009: 20,000 2007A stock options, 20,000 2007B stock options, 20,000 2007C stock options and 17,200 2003F stock options.

Retirement age and benefits: 62 years. Full pension is 66% of pensionable salary.

Notice period and severance pay: 6 months. A severance pay paid in addition to the salaries for the period of notice corresponds to 6 months' salary.

Corporate Management Board member since: 1 March 2005.



Riitta Laitasalo

b. 1955, M.Sc. (Econ.)
Senior Vice President, Human Resources.
Domicile: Espoo, Finland.

Other major duties: Edita Plc: member of the Board of Directors, JTO School of Management: member of the Board of Directors, the Finnish Institute for International Trade Fintra: member of the Board of Directors.

Employment history: employed by Kesko Ltd since 1979: Personnel Director 1995–1997, Vice President, Accounting and Finance Division 1997–1998, Vice President, Finance and Administration Division 1998–1999, Senior Vice President, Administration 2000–2005. Senior Vice President, Human Resources since 30 March 2005.

Kesko shares and stock options held on 1 January 2009: 5,000 B shares, 15,000 2007A stock options, 15,000 2007B stock options and 21,000 2003F stock options.

On 31 December 2009: 10,000 B shares, 15,000 2007A stock options, 15,000 2007B stock options, 15,000 2007C stock options and 16,000 2003F stock options.

Retirement age and benefits: 60 years. Full pension is 66% of the pensionable salary.

Notice period and severance pay: 6 months. A severance pay paid in addition to the salaries for the period of notice corresponds to 12 months' salary.

Corporate Management Board member since: 1 January 2001.



Arja Talma

b. 1962, M.Sc. (Econ.), eMBA
Senior Vice President, CFO.
Domicile: Helsinki, Finland.

Other major duties: Sponda Plc: member of the Board of Directors and Chair of the Audit Committee, VR-Group Ltd: member of the Board of Directors and Chair of the Audit Committee, Luottokunta: member of the Board of Directors.

Employment history: KPMG Wideri Oy Ab: APA 1992–2001, partner 2000–2001. Oy Radiolinja Ab: Executive Vice President, Finance and Administration 2001–2003. Employed by Kesko Corporation since 2004: Vice President, Corporate Controller 2004–2005. Senior Vice President, CFO since 17 March 2005.

Kesko shares and stock options held on 1 January 2009: 1,000 B shares, 25,000 2007A stock options and 25,000 2007B stock options.

On 31 December 2009: 2,000 B shares, 25,000 2007A stock options, 25,000 2007B stock options and 25,000 2007C stock options.

Retirement age and benefits: General retirement age and pensionable salary based on the Employees' Pensions Act (TyEL).

Notice period and severance pay: 6 months. A severance pay paid in addition to the salaries for the period of notice corresponds to 6 months' salary.

Corporate Management Board member since: 17 March 2005.



Paavo Moilanen

b. 1951, Business College Graduate.
Senior Vice President, Corporate Communications and Responsibility.
Domicile: Espoo, Finland.

Other major duties: Kaleva Mutual Insurance Company: Supervisory Board member, the Association for Finnish Work: member of the Communications and Research Committee, the Federation of Finnish Commerce: Chair of the Communications Committee

Employment history: employed by Kesko Ltd since 1974: Kajaani District Director 1986–1989; Jyväskylä District Director 1989–1991; Seinäjoki District Director 1991–1995; Director of the Neighbourhood Store Chain Unit 1995–1996; Director of the Speciality Goods Division 1996–1997, Vice President, Builders' and Agricultural Supplies Division 1998–2000, Managing Director of the K-Retailers' Association 2000–2005. Kesko Group's Senior Vice President, Corporate Communications and Responsibility since 13 October 2005.

Kesko shares and stock options held on 1 January 2009: 500 A shares, 1,312 B shares, 15,000 2007A stock options and 15,000 2007B stock options.

On 31 December 2009: 500 A shares, 1,500 B shares, 15,000 2007A stock options, 15,000 2007B stock options and 15,000 2007C stock options.

Retirement age and benefits: Retirement age 60 years. Full pension is 66% of the pensionable salary.

Notice period and severance pay: 6 months. A severance pay paid in addition to the salaries for the period of notice corresponds to 12 months' salary.

Corporate Management Board member since: 13 October 2005.